#### Update on California's Approach to Energy Efficiency

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#### ABSTRACT

This paper provides an update on delivery mechanisms and financing of California energy-efficiency programs. For several years, uncertainty has surrounded the role of utilities as program administrators and the role of third parties as program implementers in California. This paper will summarize California Public Utilities Commission (CPUC) decisions regarding implementation mechanisms and funding. Interagency cooperation and increased local government involvement, including the emergence of regional energy offices, have become increasingly important in California. Additionally, the CPUC has encouraged local governments and investor-owned utilities (IOUs) to form energy-efficiency partnerships, and for 2004-2005 allocated \$44.6 million, nearly 10 percent of available funds, to this effort. This paper examines these developments, and compares and contrasts California has a hybrid approach where the CPUC is acting as both an administrator and a policy making body, something that does not occur elsewhere.

In 2002, California enacted a Community Choice Aggregation law that allows cities and counties to aggregate load within their jurisdictions and purchase energy from non-utilities. Community aggregators, rather than IOUs, can also administer energy-efficiency funds. This paper provides an overview of what is permitted currently in terms of energy-efficiency for early adopters of community aggregation, and surveys how Energy Service Providers (ESPs) are integrating energy-efficiency does not appear to be a high priority for ESPs, nor are customers seeking energy-efficiency services from ESPs.

## Introduction

This paper provides an update on the current and likely future delivery mechanisms and funding of California investor-owned utility (IOU) energy-efficiency programs. This paper also examines new developments in California's energy-efficiency market -- the role of partnerships, community choice aggregation (a new vehicle for customer choice and the administration of energy efficiency), and Energy Service Providers (ESPs).

# Status of Investor-Owned Utility Energy-Efficiency Programs in California

California's energy-efficiency programs have experienced major shifts in direction over the past ten years, including the substantial impacts of industry restructuring on funding for energy efficiency. As explained below, the major sources of debate have been two-fold: 1) Who should administer energy-efficiency programs in

California? and 2) What should be the role of third parties in implementing energyefficiency programs? A related issue has been how active a role the California Public Utilities Commission (CPUC) should play in choosing program implementers. A final area of debate in recent years, particularly in response to the 2000 energy crisis, has been the scope of overall energy-efficiency program funding.

In December 2003, the CPUC made a major change – it increased the funding cycle from one year to two years. Before restructuring in 1996, the CPUC had three-year energy-efficiency funding cycles for utilities (in their general rate cases) but for the last 10 years, the funding cycle has been annual, which has made it extremely difficult for program planning and implementation. Parties have welcomed the two-year funding cycle, at least for some programs.

Since California embarked on its restructuring exercise nearly ten years ago, IOUs have administered energy-efficiency programs on an interim basis.<sup>1</sup> Beginning in the summer of 2000, in response to California's energy crisis and in an effort to reduce peak demand, the CPUC has assumed a major role in the administration of energy-efficiency programs and has allowed independent, third-party providers to develop and implement programs with minimal involvement from the utilities.

At the same time, energy-efficiency has been guaranteed an ongoing role in California's energy policy through the establishment of a public goods charge (SB 1194, 2000) and the adoption of the Energy Action Plan by the CPUC, the California Energy Commission (CEC), and the California Power Authority (CPA).<sup>2</sup> In choosing programs for the 2004-2005 funding cycle, the CPUC gave a more prominent role to partnerships between utilities and third parties, many of them public agencies and local governments.

#### **CPUC Policy Directives**

Over the past four years, the CPUC has taken an active role in selecting actual energy-efficiency programs, in addition to establishing policy direction for energy-efficiency programs. Starting in 2000, the Commission began funding directly programs offered by third parties, as well as those from utilities. In the decision in which it called for proposals for reducing peak demand during the summer of 2001, the CPUC stated:

"We therefore direct the Applicants, and any other party who wishes to do so, to provide us with program options that will bring about the largest reduction in electric demand and/or electric usage reductions in the shortest period of time, along with concrete plans for program administration, verification of demand and energy reduction, and program budgets." (Decision 00-07-017 in A.99-09-049, et al.)

This program, known as the Summer Initiative, was funded through \$72 million in prior year unspent utility energy-efficiency funds. The CPUC asked interested parties

<sup>&</sup>lt;sup>1</sup> For a comprehensive history of California's energy-efficiency policy direction, with a focus on the shared-savings incentive mechanism, see Attachment 2 to Administrative Law Judge Ruling of February 6, 2004, in R.01-08-028.

<sup>&</sup>lt;sup>2</sup> "California should decrease its per capita electricity use through increased energy conservation and efficiency measures. This would minimize the need for new generation, reduce emissions of toxic and criteria pollutants and greenhouse gases, avoid environmental concerns, improve energy reliability and contribute to price stability." (Energy Action Plan)

to submit bids. It received proposals for over 50 programs from 24 different parties, seeking total funding of over \$500 million. The CPUC awarded 15 programs, seven of them statewide, and eight of them in single locations. Energy savings from these programs were projected to be 226 million kWh, with peak demand savings of 67 MW by the end of 2001. (August 21, 2000 Assigned Commissioner's Ruling in A.99-09-049, et al.) Utilities were not authorized to earn a shareholder incentive, because "These funds were previously subject to shareholder incentives; thus, the utilities previously had the opportunity to earn incentives on programs that were funded with this same pool of funds." (8/21/00 Ruling)

In terms of results from the Summer Initiative, the program is reported to have cost \$70 million, saved 266,556 MWh in the first year, 132 MW, and cost 26 cents per first-year kWh saved and 3 cents per lifetime kWh saved. These results are as reported by participants and are not verified. (CALMAC Study) While there is more (verified) data on individual Summer Initiative programs, the data from different programs is not comparable, and the measurement study evaluated selected Summer Initiative programs, not the entire Summer Initiative effort as a whole.

For all 2001 energy-efficiency programs (utility, municipal utility, municipal programs, Summer Initiative) and excluding curtailment, peak shifting, low income, renewables, and codes and standards programs: the state spent over \$890 million, and achieved a first-year energy savings of 4.76 million MWh, for a cost of 19 cents per kWh saved in 2001, or 3 cents over the lifetime. This figure is consistent with the cost of prior-year energy-efficiency programs.

In August 2001, the CPUC opened a new energy-efficiency docket, in which it promised to examine long-term energy-efficiency administration issues:

"For the longer term, we also plan in this proceeding to settle on the appropriate administrator(s) of Commission-ordered energy-efficiency programs. Currently, the large investor owned utilities (IOUs) ... administer the programs.

Decision (D.) 99-03-056 created the expectation that such administration for energy-efficiency would not continue into 2002, stating, "Interim utility administration of energy-efficiency programs should not continue past December 31, 2001." However, there is insufficient time to change the basic structure of administration before the beginning of 2002. Therefore the IOUs should continue, until we notify them of a change, to assume responsibility for energy-efficiency program administration. In connection with that responsibility, we direct the IOUs to retain appropriate existing personnel to manage these energy-efficiency programs." (R.01-08-028, p. 2)<sup>3</sup>

The Commission commenced public comments on the long-term administration issue in 2004. In the interim, it has awarded two rounds of funding for energy-efficiency programs. In selecting programs for the 2002-2003 funding cycle, the Commission made a conscious decision again to award funds to non-utility third parties. Indeed, the

<sup>&</sup>lt;sup>3</sup> The CPUC had previously examined the issue of transferring energy-efficiency program administration from utilities to a third party administrator but, after over a year of workshops and hearings and hundreds of pages of comments, reached no final decision. (Attachment 2 to February 6, 2004 ALJ Ruling in R.01-08-028, and Blumstein, et al.)

Commission's original proposal had been to give the entire amount of public goods charge funds available for energy-efficiency to third parties. After taking comments on this approach, the Commission limited the amount of funds for third party programs to \$100 million, or 20% of the available money, and directed the remainder to utility programs and a few statewide information and marketing programs. "The key change we make here has to do with the amount of total energy-efficiency funds for which third party non-utilities are eligible. We are persuaded by the comments, including those from ratepayer advocacy groups, that a phase-in of our proposed program is a good way to test the feasibility of our recommendations. (D.01-11-066, p. 1, in R.01-08-028)

The CPUC currently thinks about energy-efficiency programs as either statewide or local. It describes statewide programs as: "the backbone of the energy-efficiency approach for 2002. These programs serve the Commission's policy goals and objectives by allocating funding equitably across customer classes and geography, providing consistent and recognizable program reach and securing both short- and long-term energy savings and peak demand reduction." (D.01-11-066, p. 8) It describes local programs as follows: "Local program options have the advantage of being able to respond flexibly to energy end-users' needs. Local programs also utilize local relationships and networks to increase participation and reach. Individual consumers depend heavily on local infrastructure in making energy-efficiency decisions." (D.01-11-066, pp. 14-15) Where third parties have a role in direct program development, sponsorship, and implementation in California, it is in the local program area.

For the 2004-2005 funding cycle, the CPUC maintained about the same allocation of funds from the public goods charge to utility programs versus funds to third-party programs. Additionally, in the context of a long-term resource planning proceeding, the CPUC also authorized utilities to spend an additional \$244.6 million on energy-efficiency programs. (D.03-12-062 in R.01-10-024.) This marks a return for California to an integrated resource planning approach. The CPUC selected the procurement-funded energy-efficiency programs after it reviewed utility long-term resource plans that included 5-, 10-, and 20-year planning horizons (D.03-12-062). Ratepayers will provide this additional money through a new, non-bypassable surcharge. The CPUC is authorizing the investment in energy-efficiency in lieu of traditional generation sources. The procurement-funded energy-efficiency programs are all utility-sponsored programs for 2004-2005.

Moving forward, it is not clear who will administer and implement energyefficiency programs. The long-promised CPUC decision on long-term program administration is scheduled to be issued by the summer of 2004. In preparation for this decision, the CPUC has referred parties to papers that survey how various states and regions have chosen to administer energy-efficiency programs. (Harrington, Murray, 2003; Blumstein, et al, 2003) In terms of funding, the legislation authorized the public goods charge through 2012.

#### Changing Role of Interagency Cooperation, Public Agency Involvement, and Regional Energy Offices in California Energy-efficiency Programs

Starting with the 2002-2003 program cycle, public agencies and other non-utility, non-energy service company entities have played a greater role in the delivery of California's energy-efficiency programs. Additionally, regional energy offices are emerging in different areas of the state, and are taking on key roles for energy-efficiency programs in those regions.

For example, the San Diego Regional Energy Office (SDREO), a non-profit corporation formed in response to regional planning efforts spearheaded by the San Diego Association of Governments in 1994, now administers \$30 million in energy-efficiency funds from a range of sources and offers a variety of programs. SDREO's initial funding came from small grants from the DOE and the CEC (with some in-kind support from the CEC), along with CPUC monies distributed through the local utility. During the California energy crisis, funding from the CEC and CPUC increased substantially, with the current budget almost entirely funded from CPUC Third Party funds. SDREO continues to seek diverse funding sources.<sup>4</sup> The SDREO continues to perform regional planning activities, and in 2003 coordinated the release of a long-term energy plan, developed jointly by local business, government, and civic and non-profit entities (San Diego Regional Energy Strategy 2030).

2002-2003 was the first time the SDREO received funding from the CPUC. It received funding as a third-party sponsor of six programs, totaling \$6,138,590 (D.02-05-046, pp. 5-6, May 16, 2002, in R.01-08-028). The SDREO 2002-2003 programs included a program targeted at public agencies, establishment of a regional energy resource and education center, a tree planting program, and programs targeted at the agricultural, small commercial and K-12 schools segments. Evaluation, measurement, and verification (EM&V) reports for the 2002-2003 program are still being prepared, so it is too early to judge whether these programs met their goals. However, the CPUC has relied on a third party's track record as a factor in awarding public goods charge funds, and the SDREO, as the managing entity for the San Diego Regional Energy Partnership, received funding for six programs for 2004-2005, several which are continuations of the 2002-2003 programs. Total SDREO funding for 2004-2005 programs is \$9,075,151 (Attachment 2, p. 8, to D.03-12-060).

The CPUC and the CEC both are offering more funding to regional energy offices. In the 2002-2003 program cycle, it funded the establishment of a regional energy office in Humboldt County, in the most northwestern corner of California. This region has long complained of being underserved by utility energy-efficiency programs. The Redwood Coast Energy Authority (RCEA) is comprised of several cities and Humboldt County, and operates through a joint powers agreement. The RCEA is helping member jurisdictions pursue funding for energy projects from a range of sources, including CEC loan and audit programs. The CPUC has authorized an additional \$1 million for 2004-2005.

In 2002-2003, the CPUC funded a study for a regional energy office in Ventura County (Santa Barbara area). The Ventura County Regional Energy Alliance (VCREA) operates under a joint powers agreement. The VCREA received additional CPUC funding for 2004-2005, although activities in the current funding cycle will be conducted in partnership with Southern California Edison. The VCREA currently is helping member cities identify energy-efficiency opportunities and install energy management systems (Local Government Commission web site). 2004-2005 funding will be directed toward completing development of a regional energy center, and developing a program to assist public agencies (Attachment 6 to D.03-12-060). Both these projects were spearheaded by the Local Government Commission, a non-profit organization whose mission is to "build livable communities."

<sup>&</sup>lt;sup>4</sup> Telephone conversation with Scott Anders, Director of Policy and Planning, San Diego Regional Energy Office, May 7, 2004.

The CEC, in its role as the operating agent for the Department of Energy Rebuild America program, has funded a study for a regional energy office in the Monterey area. For 2004-2005 the CPUC funded several programs aimed at educating and empowering public agencies and/or local governments in terms of energy efficiency.

Decision	Utility Funding	Third Party Program Funding	Funding for Marketing & Outreach, and for EM&V	Total
February 26, 2004 D.04-02-059 Funding for 2004-5 Programs in addition to programs funded in D.03- 12-60	\$53.1m	\$15.9m	\$322,000	\$71.1m
December 18, 2003 Decision 03-12-060 Adopts prospective funding allocations for 2004-5	\$348.5 m *Includes \$44.6 m for partnership programs	\$104.3m	Marketing & Outreach: \$41m EM&V & other projects: \$15.7m	\$509.6m
August 21, 2003 D.03-08-067 Solicits '04-05 proposals	70%	20% to other non- utility programs	10% to statewide marketing and outreach and EM&V	100%
April 17, 2003 D.03-04-055 Approves 2003 IOU statewide and local programs	\$220.0m	\$47.5m	Marketing and Outreach: \$20.5m Various: \$11.0 m	\$298.9m
June 6, 2002 D.02-06-026	\$418,932	\$15.3m		\$15.8m
May 16, 2002 D.02-05-046 In addition to funding in D.02-03-056	\$15.5m	\$93.7m		\$109.2 m
March 21, 2002 D.02-03-056 2002 programs	\$149.9m		Statewide Marketing and outreach \$10.1m	\$160 m
August 21,2000 Assigned Commissioner and ALJ Ruling, Summer Initiative	\$6.1m	\$14.5m	\$51.7m, Joint utility/third party	\$72.2m
TOTAL	\$793.5 m (64%)	\$291.2 (24%)	\$150.3 m (12%)	\$1,236.8 m

Table 1. Breakdown of Utility and Third-Party Energy-Efficiency Programs inCalifornia, 2000-2004

\* EM&V: Evaluation, Measurement, and Verification

## **CPUC Emphasizes Partnerships for 2004-2005 Funding Cycle**

In the CPUC Assigned Commissioner's Ruling laying out the solicitation process for the 2004-2005 funding cycle, the Assigned Commissioner encouraged the utilities to enter into partnerships with local governments and public agencies: "If utilities are able to partner with local governments and third parties in a substantial manner, I will recommend to the Commission that we reduce the amount of funding allocated to the non-utility solicitation." (Kennedy ACR, July 2003) This statement provided sufficient incentive for the utilities to submit 17 partnership proposals, of which CPUC authorized 10, at a total cost of \$44.6 million. (D.03-12-060)

Partnership	Utility	Funding	Targeted
			Savings
San Diego City Schools Retrofit	SDG&E	\$2.3 m	308 kW; 3m kWh
City of Pomona	SCE	\$0.7 m	38 kW; 536,694 kWh
The Energy Coalition	SoCalGas	\$1.2 m	917,440 th
IOU/UC/CSU Partnership	All	\$15.1 m	2,700 kW; 18.4m kWh; 859,267 th
Bakersfield/Kern Energy Watch	SCE, SoCalGas, PG&E	\$5.5 m	2,159 kW; 9.7m kWh; 168,732 th
PG&E/Silicon Valley Energy Partnership	PG&E	\$1.9 m	903 kW; 3.6m kWh
Local Government Partnership: City of West Sacramento	PG&E	\$0.3 m	25 kW; 309,438 kWh
Local Government Partnership: East Bay Energy Partnership	PG&E	\$5.3 m	Not available
Local Government Partnership: City of Fresno	PG&E	\$3 m	1,567 kW; 8m kWh; 84,405 th
Local Government Partnership: City of Stockton	PG&E	\$2.2 m	1,411 kW; 5.4m kWh; 193,480 th
Local Government Partnership: El Dorado County	PG&E	\$1.2 m	611 kW; 3.4m kWh; 4,300 th
The Energy Coalition: Community Energy Partnership	SCE	\$4 m	9,995 kW; 11.8m kWh
South Bay Cities energy-efficiency Center	SCE, SoCalGas	\$1 m	Not available
Ventura County Regional energy-efficiency Center and Comprehensive Public Sector Program	SCE, SoCalGas	\$1.7 m	8% or more kWh; 5% or more kW
LA County SCE/SCG Partnership	SCE, SoCalGas	\$3.7 m	1,819 kW; 4.6m kWh: 402,428 th

 Table 2. CPUC Authorized Energy-Efficiency Partnerships for 2004-2005

The CPUC did not issue any guidance to parties on what constitutes a partnership or how these relationships should be structured. Based on experience in developing and now implementing two of the larger partnerships, it is the opinion of the authors that there is no standard form a partnership will take. Public agencies who form energyefficiency alliances with utilities do so because of the expertise, experience, and funding the utilities may bring. Utilities appear to be responding to the CPUC's directive that they form partnerships, both as a way to increase energy-efficiency savings, enhance innovative program design, and presumably as a way to maintain their control of energyefficiency funds. The CPUC, in turn, is urging partnerships in response to ongoing comments from local government entities that utility programs are not flexible enough to meet their needs, and the assertion from local governments that they are more familiar with the specific needs of customers in their jurisdictions, and can best reach and serve them.

As noted above, the authors have been involved in the development and now the implementation of two of the larger partnerships funded for 2004-2005: the University of California/California State University (UC/CSU) statewide IOU partnership, a partnership between the universities and the four major investor-owned utilities, funded for \$15 million; and the Los Angeles (LA) County/ Southern California Edison/Southern California Gas partnership, funded at \$3.65 million.

Source: D.03-12-060, D.04-02-059

The UC/CSU partnership was designed to foster a culture of energy-efficiency across the two systems, and to help implement sustainability initiatives adopted by both systems over the past two years. With 33 participating campuses, the program requires a significant amount of coordination and management. The program includes a retrofit element, a monitoring-based commissioning element, and an education and best practices training element. Funding and targets for the program are broken out as follows:

	SCE	PG&E	SoCalGas	SDG&E	Total
Program Budget	\$4,500,000	\$5,492,072	\$2,039,405	\$3,070,229	\$15,101,706
kWh Target	6,800,013	7,499,828	N/A	4,098,981	18,398,822
kW Target	1,004	1,106	N/A	590	2,700
Therms Target	N/A	283,232	425,945	150,090	859,267

 Table 3. UC/CSU/IOU 2004-2005 Statewide Energy-Efficiency Partnership

UC/CSU – IOU energy-efficiency Partnership Program, 2004-2005 Program Implementation Plans, March 2, 2004, (R.01-08-028)

LA County has an established infrastructure for delivering energy-efficiency to 38 county departments and offices. The County administered a \$3 million third-party program in 2002-2003. The LA County/SCE/SCG partnership for 2004-2005 will allow the County to leverage its existing energy management infrastructure with expertise and additional resources from the two utility partners. The utilities are able to take advantage of the County's in-house project management expertise, which is an in-kind donation to the program. It is expected that the relationship with the County will allow the utilities to reach departments with which they would otherwise have difficulty connecting. Assuming the program will be successful, the partners expect to build on the working relationships that are developed. Funds and savings for the partnership are located in Table 4.

# Comparison of California's Approach on Third-Party Involvement to That in Other States

Other states usually employ one of four administrative approaches to energy efficiency, and this in turn drives the role of third parties in developing and delivering energy-efficiency programs. Harrington & Murray (2003) have characterized these administrative approaches broadly as independent, non-government statewide organization; fully integrated IOU; unaffiliated distribution company; and government administration. California is currently using a hybrid of administrative approaches. While the CPUC is providing policy direction, it also is directly reviewing and approving scores of individual programs, including utility programs. This contrasts with the approach in New York, for example, where a quasi-governmental entity, the New York

State Energy Research and Development Authority (NYSERDA), develops plans for the regulatory agency to approve. NYSERDA then either implements programs itself, or engages third parties to assist. The California approach also contrasts with the approach in Oregon and Vermont, each of which has established an independent, non-government statewide organization to administer energy-efficiency programs, with the regulatory body providing policy direction and oversight. Again, third parties deliver energy efficiency, but not as program developers, and not in direct response to a call from the regulatory body for proposals.

Program Element	Target Market(s)	Type of Program	2004/2005 Budget	Peak Demand Reduction (Net kW)	Annualized Energy Savings (Net kWh)	Annualized Energy Savings (Net Therms)
Energy Efficiency Audits and Retrofits	County facilities taking service under medium to small account tariffs, some large accounts	Hardware	SCE - \$1,460,55 7 million	501	2,010,322	N/A
Retro/Continuous - Commissioning	County facilities taking service under large customer time-of-use tariffs	Hardware	SCE - \$1,400,97 7 million SCG - \$650,000	1,401	2,713,319	402,428
Multi-Family Public Housing Retrofits *	Public housing facilities	Informatio n and Hardware	SCE - \$50,000 See note below for more details	N/A	N/A	N/A
Public Agency energy-efficiency Technology Transfer	Local government energy/facilit y managers	Informatio n/ Training	SCE - \$88,470	N/A	N/A	N/A
TOTAL			\$3,650,00 0	1,902	4,723,641	402,428

Table 4. Los Angeles County/SCE/SCG 2004-2005 Energy-Efficiency Partnership

Los Angeles County, Internal Services Department, Southern California Edison, and Southern California Gas Company, *Energy-Efficiency Partnership Program, Program Implementation Plan*, February 2, 2004, R.01-08-028

\* The cost for the multi-family Public Housing Retrofits - metering component is \$186,000. The partnership has allocated \$50,000 from PGC funds to this effort, which will install real-time, wireless, meter usage devices in public housing units. However, a successful implementation of this component is contingent on finding an additional \$136,000 from other sources.

The difference between what has evolved in California and what is happening elsewhere is that the administrative role is split between the CPUC and the utilities. The CPUC is both providing broad policy guidelines and selecting actual programs. Some would argue that this presents a conflict of interest for any program administrator. Currently, the utilities are still the contract agent for programs that are sponsored and delivered by third parties. The utilities are not, at this time, earning any shareholder incentive for these programs, but rather are charging a five percent administrative fee. Furthermore, the utilities continue to sponsor and deliver their own energy-efficiency programs, both statewide and local. Particularly among the local programs, there appears to be some overlap between utility and third party programs. All of these conditions may change as a result of the ongoing discussion about long-term administration.

# **Community Choice Aggregation**

In 2002, California enacted a Community Choice Aggregation law (Assembly Bill 117 (AB 117); Public Utilities Code Sections 218.3, 331.1, 366.2, 381.1, and 394.25). Under this program, cities, counties, or cities and counties together can establish community-wide electricity buyers programs. Community aggregators can apply to the CPUC to be the administrator of public goods charge funds for energy-efficiency.

To date, the CPUC has implemented this provision by allowing community aggregators to propose programs along with the utilities and third parties (D.03-07-034, p. 10, July 10, 2003 in R.01-08-028). Several parties had requested that the CPUC give a preference to energy-efficiency programs proposed by community aggregators. The CPUC instead views community aggregators as another type of energy-efficiency provider.<sup>5</sup> The CPUC also views the community aggregation law as recognition by the Legislature of the continuing role for third parties in California's energy-efficiency market: "Significantly, by directing the Commission to establish procedures for non-utilities to apply for energy-efficiency program funding, AB 117 encodes the Commission's current policy to permit third parties to apply for energy-efficiency program funding and responsibilities to the Commission's jurisdictional utilities." (D.03-07-034, p. 8)

No community aggregators are established in California to the point where they are ready to develop energy-efficiency programs. There are several cities studying the opportunity, however, and it is foreseeable that the CPUC (or the energy-efficiency administrator, if a new structure is adopted) could receive applications from community aggregators in the next funding cycle.

AB 117 imposes many other requirements for community aggregators, as well as surcharges and fees, many of which are under deliberation before the CPUC (R.03-10-003). The disposition of these issues, particularly exit fees, will affect the economic viability of community aggregation. The opportunity to administer energy-efficiency funds in their jurisdiction is, however, a key factor for many of the cities and counties looking at community aggregation.

<sup>&</sup>lt;sup>5</sup> "...we are not prepared to treat CCAs any differently from other parties at this time. While we may ultimately find that CCAs are appropriately independent agencies that should have considerable deference to use Section 381 funds, we leave the issue of CCA's role and discretion to our broader rulemaking. To treat them differently at this time would presume a policy direction that we are not prepared to address in the narrow context of this inquiry. We may reconsider the process and criteria for reviewing CCA applications for energy-efficiency program funding. Until and unless we do, we will apply the same procedures and criteria for review that we apply now to all Third Party applicants for energy-efficiency program funding, including EM&V requirements." (D.03-07-034, p. 10)

## **Energy Service Providers**

Energy service providers (ESPs) are still active in California, serving those customers that are taking direct access service,<sup>6</sup> and advocating for policies under consideration that would allow more customers to take service from them, in particular the "core/non-core split" (see e.g., AB 428 (Richman and Canciamillia) and AB 2006 (Nunez)). ESPs also are monitoring the community aggregation rulemaking. To date there are no requirements that ESPs provide energy efficiency. Direct access customers pay the public goods charge as a "non-bypassable charge" and are therefore eligible for all PGC funded programs, whether offered by utilities or third parties.

When direct access service began in California in 1996, many ESPs offered energy-efficiency as well as commodity electricity. However, with suspension of future development of direct access and the upheaval in California's energy markets, no ESP currently markets energy-efficiency services with commodity sales. Also, many customers did not trust their ESP to be able to offer energy-efficiency on a neutral basis, since it generally resulted in lost profits on energy sales.

Kushler and Witte have researched energy-efficiency programs offered by ESPs. In addition to the perceived conflict of interest described above, customers sometimes avoid using ESPs to provide energy-efficiency services because (1) they may already have relationships with energy-efficiency service providers, (2) they may be more comfortable using specialist energy-efficiency service providers rather than generalist ESPs, and (3) terms for energy-efficiency service contracts tend to be for longer terms than contract terms for commodity services.

Nationally, 46 percent of retail electricity commodity suppliers surveyed indicated their belief that the commodity business is a good platform for delivering energy efficiency. Of that 46 percent, however, 41 percent did not actually offer an energy-efficiency product, even an information-only product. In this national survey, many of the ESPs interviewed emphasized that they were either deliberately focusing on the commodity market or were sufficiently occupied with keeping up with the commodity business, or did not believe that bundling commodity with efficiency sufficiently, or that they did not have sufficient expertise, or energy-efficiency was a separate business unit. Some of the ESPs perceived high customer interest in energy-efficiency, and others perceived none.

## Conclusion

California is at a crossroads in terms of administration of energy-efficiency programs, as the CPUC continues to consider whether IOUs or other entities should have this role. The administrative structure of the future cannot be predicted. Recent filings indicate strong interest from the to continue administering programs, even though it is not clear if shareholder earnings incentives will be withheld or eliminated on a permanent basis. The utilities now acknowledge that if they continue as administrators, they will allocate a similar percentage of funds to third parties as the CPUC has done.

<sup>&</sup>lt;sup>6</sup>Direct access service refers to commodity electric service provided to a retail customer from an entity other than its local distribution utility. Under California law AB 1X, there is a suspension on further implementation of direct access. However, customers who had signed contracts for direct access service prior to September 20, 2001, may continue to take direct access service.

While this debate continues, the state has developed new delivery mechanisms, and legislation assures an ongoing role for community aggregators, at least, in program development and delivery. Overall, greater emphasis on energy-efficiency and demand management, through both policy and funding, is occurring. The return of integrated resource planning should also benefit energy efficiency.

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