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California Energy Commission
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Sacramento, CA 95814

Docket No. 12-EBP-1: AB 758 Comments
1. Unlock innovation with Standard Offer ("SO")

Situation

California has set itself aggressive targets and goals relating to climate change, carbon and pollution output, energy and water use reductions, etc. In its efforts to reach those targets and goals, California has largely turned to using established mechanisms, such as charging the CPUC with using regulatory mechanisms to drive utility service entities to implement programs to reduce demand for the services they supply.

Problem

Traditional regulatory techniques are not well suited to many aspects of the overall demand reduction challenge. Two aspects that are particularly influential to achieving results are (i) innovation, and (ii) changes in behavior of largely unregulated participants – most notably consumers. Without significant advances in these areas, however, change will be painstakingly slow and unnecessarily costly.

While this miss-match in technique versus desired outcome has become self-evident in several years, the trajectory of California's efforts remains unaltered. Most notably, the CPUC and CEC are increasingly mired in crafting ever deeper management mechanisms to control markets and services through the utility service entities they regulate. The amount of control needed is now at levels that are increasingly beyond the capabilities of any regulatory authority, and includes elaborate processes to select and configure programs and vendors within one tight, urgent, state-wide framework that already serves other existing, and often competing, objectives (rate-payer protection, service quality, shareholder returns, etc.).

It is not difficult to make the case that market micro-management by a regulatory body is the antithesis of innovation, and often results in counter-productive, evasive, and unintended behavior from consumers and service providers. For example, the timelines necessary to ensure programs are designed and implemented in ways that eliminate rate-payer risk extend across years and typically result in innovation capital simply not being applied. Small capital providers, such as that of service vendors and technology developers, are invariably the sources of the most innovative and substantive advances in any market, and are not able to survive without getting timely traction. Uncertain market conditions also retard capital deployment; in circumstances where regulators and utilities select and discontinue programs (largely without allowances for major mid-course adjustments) the risk to capital providers becomes prohibitively high.

Game-Changer

Standard Offer programs have been implemented in many states around the nation, and they have successfully demonstrated how the benefits of market innovation and competition can be brought together with regulatory frameworks to deliver rapid, scalable and effective demand reduction action.

In short, a Standard Offer program puts a bounty on the elimination of demand, such as a dollar amount for each kWh, MW or therm eliminated. This bounty may be singular, or set based on the method in which the demand has been eliminated (that is, the dollar amount may be specified based on the type of equipment, load-shape, or some other factor).

At a basic level, a Standard Offer program operates with five roles, as set forth in Figure 1. The System Director, most likely the CPUC, appoints Administrators to engage and administer Implementers – who, in turn, are charged with designing, deploying and investing in programs of their choosing. Implementers are compensated based on the bounty they earn from demand they successfully eliminate; the proof of the elimination in demand is verified based on the activities of the fourth set of players, the EM&Vers, who conduct pre-specified audits at Consumers' facilities.

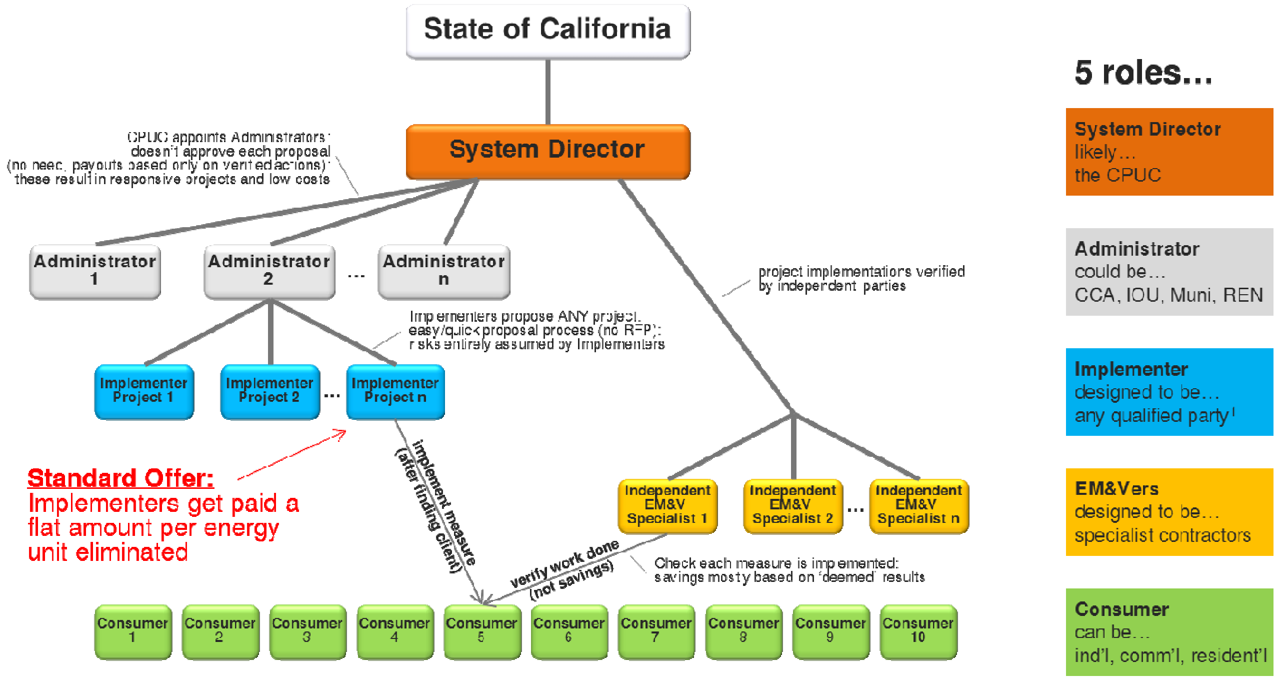

Figure 1: Potential Configuration of a California Standard Offer Program

The Standard Offer market mechanism carries with it many advantages in comparison to centrally regulated approaches to capture demand reduction (not least in relieving the CPUC from in-depth involvement in program design, implementation, management and results/rewards), as summarized in Figure 2.

Demand reduction as a state objective will be better served under a Standard Offer program, as it is able to draw massively on the innovation, market responsiveness and skills of large numbers of service providers, all incented to deliver results that are tightly aligned with state objectives. Benefits occur at every level; local service providers understand local conditions and opportunities, capital providers assess risk and reward, technology developers understand the potential application of ideas, etc.

Moreover, the infrastructure needed to develop, implement and monitor demand reduction efforts is dramatically reduced. Skills are applied and compensated appropriately, whether they are in design, outreach/marketing, administration or others, set by the supply and demand markets in which each Implementer operates.

Perhaps most importantly, given the urgency of state targets and goals, the various initiatives implemented may be adjusted to in real time; successful techniques may be expanded while others may be refined and discontinued at appropriate rates.

Lastly, ratepayers are automatically protected as payments are only made for results.

Likely <u>better results</u>	• More innovative	• No rigid RFP criteria; more start-up friendly • Implementers take risks (and ratepayers isolated)
	• More responsive to the market	• Projects can adapt to changes mid-course • Projects not micro-managed by utility/others
	• Faster results	• More rapid project design and launch • Quicker to observe and respond to success/failure
	• Superior performance	• Barriers (IOUs, rules, processes) abated • Incentives aligned with demand reduction goal • Profit motive powerful; will find all opportunities
Likely <u>lower costs</u>	• Cost to establish much lower	• Large staff (lawyers/admin/technical) not needed • Much remaining functions may be outsourced
	• Costs to administer much lower	• Implementers devise and run programs • No RFP; project design, CPUC approvals, vendor selection, execution monitor, results verification
Likely <u>quick</u> to get going	• While may be subject to some CPUC delay	• New program, minor teething hiccups • CPUC likely friendly as micro-management roles abate
	• Is decoupled from IOU	• Avoids conflicting objectives inherent in utility management mandates (particularly in relation to IOUs)
<u>Minimizes ratepayer risks</u>	• Ratepayer funds not exposed to loss	• Payments only made for measures implemented; Implementers take on the risk of any project

Figure 2: Key Benefits of a California Standard Offer Program

<u>Policy Implications/Opportunities</u>

To unleash the innovation and market savvy of its entrepreneurs, and to avoid deeper forays into market control, PlanetEcosystems joins with others to advocate the widespread adoption of Standard Offer in those Californian markets targeted for demand reduction. Time is getting short, and without a substantive change in how California manages those markets and utilizes related resources, California's goals will soon become unachievable.