

EARLY OPINION (EO) REQUEST FORM V3

The information provided in this request form will be used to request an early opinion from CPUC staff.

Program Administrator (PA) may request an EO review on projects in the development stage that are not ready for full project review. EO requests may include any aspect of project development, such as policy question, appropriate baseline, calculation techniques, preponderance of evidence documentation, program influence, and so on. EO requests may reference a specific project or cover issues relevant to multiple projects.

EO requests must be in the form of a set of specific questions with the PA first stating clearly the issue(s) or the policy 'gray-area'. The PA is expected to provide its opinion/thought on the 'gray-area' issue then specifically ask on what it wishes to ask the CPUC Staff (CS).

Early Opinion Information		Date Tracking	
EO Title	Project Costs for SEM Non-Behavioral Measures	Submission Date	12/14/23
EO Tracking Number	SCE-036	PA Response	2/22/2024
EO Reviewer(s)		CS Response 1	02/05/2024
EO sharing requested	<input type="checkbox"/> PA <input type="checkbox"/> CPUC	CS Response 2	06/10/2024
		Completion Date	

EO Requestor			
PA / Third Party Implementer	SCE	<input type="checkbox"/> Gas / <input checked="" type="checkbox"/> Electric	
Department	Custom QA/QC		
Contact Name(s)	████████████████████	Telephone #	██████████
Contact Email(s)	██		
Program Name	Strategic Energy Management Program		

EO Questions (add rows as needed)

Third Party Implementer/PA EO Question 1.

California SEM M&V Guide Version 3.02 is silent on collection and reporting of the project costs for SEM projects. The CEDARS Cost Effectiveness Tool (CET) requires accounting of all costs incurred for accurate calculation of the Total Resource Costs (TRC). Since the SEM M&V guide does not specify nor require the collection of costs and its documentation, PAs are unable to meet such regulatory requirement of costs to be entered in the First Baseline Costs field in the CET.

SCE is seeking clarification from CPUC staff on requiring project developers and implementers to collect and submit costs for all SEM projects where savings are derived by all non-behavior related installations and activities. Regulatory requirements for TRC calculations are shown below:

Measure Application Type	Code	TRC Cost & Definition	Calculated (DnCust, DnCustDI)	
			Cost Calculation	Benefits Calculation
Building Weatherization	BW	Full Measure Cost (FMC) - alternatively, Gross Measure Cost (GMC), is the total amount paid by the customer to implement the energy efficient measure <ul style="list-style-type: none"> FMC = EE Equipment + Engineering + Construction + Permitting + Disposal 	1 st Baseline = FMC	CET = [ElecBen + GasBen + [OtherBen]
Add On Equipment	AOE			
BRO-Behavioral	BRO-Bhv			
BRO-Retro-commissioning	BRO-RCx			
BRO-Operational	BRO-Op			
Normal Replacement	NR	Incremental Measure Cost (IMC) - is the marginal cost of implementing the energy efficiency measure. This is how much more expensive the energy efficient measure is than a similar industry standard measure is as defined by the Program Administrator <ul style="list-style-type: none"> IMC = FMC - BMC 	1 st Baseline = IMC	CET = [ElecBen + GasBen + [OtherBen]
New Construction	NC			
		Baseline Measure Cost (BMC) - alternatively, Standard Measure Cost (SMC), is the total amount paid by the customer to implement the baseline measure <ul style="list-style-type: none"> Baseline Cost = Baseline Equipment + Engineering + Construction + Permitting + Disposal + Labor 		
Accelerated Replacement	AR	Accelerated Replacement Cost (ARC) - alternatively, Early Retirement Cost (ERC), is the cost of the efficiency measure installed in an Accelerated Replacement Situation. The ARC is the FMC of the efficiency measure, reduced by the net present value of the FMC that would have been incurred to install the Standard Practice second baseline equipment at the end of the Remaining Useful Life (RUL). <ul style="list-style-type: none"> ARC = FMC - ((FMC - IMC) / ((1 + D) ^ RUL)) 	1 st Baseline = FMC 2 nd Baseline = IMC	CET = [ElecBen + GasBen + [OtherBen]

As shown in the above table, entering projects costs based on the Measure Application Types (MAT) are crucial for accurately calculating the TRC. Without the accounting of all costs the TRC of SEM projects can be artificially inflated. While SCE understands that capturing costs for behavior changes where there is no installation of equipment is done; in all other scenarios, where energy efficiency measures are installed or commissioned, the costs should be captured and reported for proper cost effectiveness evaluation of a project(s).

PA Opinion/Proposed Response to EO Question 1. (must be filled in)

As stated above, SCE believes that the project costs for SEM projects should be collected and should be reported in the CET and claims database on CEDARS to ensure proper calculation of TRC and benefits to be consistent with the EE reporting requirements and definition of the TRC.

Therefore;

SCE proposes the following tiered approach for capturing costs for SEM projects:

EPIA Savings less than 500,000 kWh

- Estimation provided by customer. Documentation or reference is not required to verify cost.

EPIA savings greater than 500,000 kWh

- Cost determination to comply with Statewide Custom Project Guidance Document, section 2.5.2 - Project and Measure Cost Determination.

(If Needed) CPUC Staff Clarifying Question(s) to PA

- What was basis or rationale for setting the savings-based threshold verification of costs at 500,000 kWh?
- Is there any reason why every EPIA should not have a cost estimate provided (even if it's zero) whether it's estimated or verified?
- What is the rationale for not requiring the reporting of in-house labor as a measure/program cost?
- A better screening criterion for distinguishing between estimating and verifying costs is a cost-based threshold (for example, all EPIAs with costs of \$25,000 or greater require verification).

(If Needed) PA Response to CPUC Clarifying Question(s)

- What was basis or rational for setting the savings-based threshold verification of costs at 500,000 kWh?

SCE (PA) Response (2/22/2024): The basis is per the California SEM M&V Guide Version 3.02, Annex D – Bottom Up EPIA Calculation Effort. The 500,000 kWh thresholds correspond to the level of effort “D” on this table. SCE believes the effort expended to estimate the cost of each EPIA should be proportional to the level of expected energy adjustment.

- Is there any reason why every EPIA should not have a cost estimate provided (even if it’s zero) whether it’s estimated or verified?

SCE (PA) Response (2/22/2024): SCE believes cost estimates for Behavior measures should not be required to be collected because it would require the customer to track their in-house labor, which can be burdensome for the customer. For non-Behavior measures, such as capital measures or measures with tangible costs associated with third party vendor work, cost should be collected per the tiered approach.

- What is the rational for not requiring the reporting of in-house labor as a measure/program cost?
- SCE (PA) Response (2/22/2024): Collecting in-house labor can be difficult and may add additional burden to the program. Collection of in-house labor may require more effort than implementing a low-effort EPIA and could detract customer from implementing the measure.

- A better screening criterion for distinguishing between estimating and verifying costs is a cost-based threshold (for example, all EPIAs with costs of \$25,000 or greater require verification).

SCE (PA) Response (2/22/2024): SCE believes the savings-based threshold aligns closely with the California SEM M&V Guide where the effort required is proportional to the savings. Additionally, if the savings are significant, customers will be more willing to put in the effort to provide the required documentation.

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CPUC Response 06/10/2024

CPUC Staff agrees with SCE's proposal to use a tiered approach to assigning the rigor of the cost documentation for installed EPIA measures claimed by the SEM program for non-behavior measures. This threshold (>500,000 kWh/ 200,000 therms) is the same as the threshold for the highest rigor savings estimates defined in the California SEM M&V Guide Version 3.02, Annex D – Bottom Up EPIA Calculation Effort

- For EPIA non-behavioral savings that are less than or equal to 500,000 kWh or 200,000 therms, the cost estimates will be estimated by and provided by the customer.
- For EPIA non-behavioral savings that are greater than 500,000 kWh or 200,000 therms, the cost documentation will comply with the Statewide Custom Project Guidance Document, section 2.5.2 - Project and Measure Cost Determination. This guidance requires documenting all customer out-of-pocket costs using one of the methods specified in the document.

CPUC Staff requires that costs be recorded in the Opportunity Register for all installed measures, including a \$0 entry for measures that do not have an associated cost. We are not requiring costs associated with SEM projects to be included in the SEM CET at this time. CPUC Staff is currently considering which customer costs associated with SEM participation and installed measures should be used to calculate SEM CET.

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CPUC Response 04/21/25

The original CPUC direction on reporting customer costs was issued 06/10/2024. CPUC directed PAs to report customer costs in the Opportunity Register following the EO36 guidelines. However, the PAs were not required to report customer costs in CEDARS claims nor to include them in SEM cost-effectiveness testing while CPUC Staff considered which customer costs should be reported.

After considering the role of cost-effectiveness testing and SEM program design, the CPUC guidance is as follows:

As described above in our prior response, project developers and implementers are directed to collect customer material and contracted labor costs associated with implementing SEM EPIAs (Energy Performance Improvement Action) contributing to SEM claimed savings. The EPIA customer costs should be reported consistently with directions for CEDARS Cost Effectiveness Testing. However, customer staff costs associated with participating in SEM, such as the hours spent in SEM training or in implementing an EPIA, such as the time spent modifying equipment controls, are considered part of normal staff duties, thus customer staff labor is not tracked or reported as a cost. Project developers and implementers are directed to document savings using a tiered approach:

- For EPIA savings that are less than or equal to 500,000 kWh or 200,000 therms, the cost estimates will be estimated by and provided by the customer.
- For EPIA savings that are greater than 500,000 kWh or 200,000 therms, the cost documentation will comply with the Statewide Custom Project Guidance Document for Project and Measure Cost Determination. This guidance requires documenting all customer out-of-pocket costs using one of the methods specified in that document.

This threshold is the same as the threshold for the highest rigor savings estimates defined in the California SEM M&V Guide Version 3.02, Annex D – Bottom Up EPIA Calculation Effort. The project developers and implementers should report customer costs for every completed EPIA in the Opportunity Register with supporting documentation in the project files, including a cost of \$0 for EPIAs that are exclusively implemented using customer staff labor and have no other material costs.

The PAs are directed to oversee the developers and implementers to ensure costs are correctly reported in the Opportunity Register and the PAs are directed to report customer costs related to implementing SEM EPIAs in CEDARS. CPUC notes that it is the customer's prerogative to install SEM EPIAs that would not pass CET screening, thus some individual projects may not pencil out as cost-effective.

PAs are instructed to incorporate customer cost reporting in CEDARS claims for project starting this year, 2025.

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EO Scope	
<p>Describe the size of the applicable markets:</p> <p>Is the proposed set of measures applicable to a limited or broad market? Please give your best estimate for applicable market size (the range of like customers or plants): <input checked="" type="checkbox"/> Small (under 20) <input type="checkbox"/> Large (100+) <input type="checkbox"/> Other (please specify) The cost collection should be required for all SEM projects</p> <p>Estimate the size of the incentive per project associated with a project subject to the EO review</p> <p><input type="checkbox"/> < \$7500 <input type="checkbox"/> \$7500 – \$25000 <input type="checkbox"/> \$25000 – \$100000 <input type="checkbox"/> \$100000 <input checked="" type="checkbox"/> N/A or unknown</p>	
EO Category	<input checked="" type="checkbox"/> Policy <input type="checkbox"/> Measure Performance <input type="checkbox"/> Baseline <input type="checkbox"/> Calculation Technique <input type="checkbox"/> Documentation Requirements <input type="checkbox"/> Program Influence <input type="checkbox"/> Other (describe)
If Policy, SW Rulebook Section and Rule Affected	California SEM M&V Guide Version 3.02, July 06, 2022
Measure Description	
Industry/Market Sector	<input type="checkbox"/> Residential <input checked="" type="checkbox"/> Commercial <input checked="" type="checkbox"/> Industrial <input checked="" type="checkbox"/> Agricultural <input type="checkbox"/> Cross cutting <input type="checkbox"/> Other (describe)