



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

SUBJECT: SEE BELOW

DATE: February 22, 2021

Approved

Date

02/24/21

**SUBJECT: SJCE PROGRAMS ROADMAP AND ENERGY EFFICIENCY
PROGRAMS ADVICE LETTER**

RECOMMENDATION

(a) Adopt a resolution:

- (1) Authorizing the Director of the Community Energy Department, or her designee, to prepare and submit an Advice Letter to the California Public Utilities Commission to administer Elect to Administer Energy Efficiency programs; and
- (2) Authorizing the City Manager, or his designee, to accept and administer California Public Utilities Commission funds if the Advice Letter is approved by that agency.

(b) Accept report on San José Clean Energy programs roadmap.

OUTCOME

Submitting the Advice Letter to administer Elect to Administer (ETA) Energy Efficiency programs will result in funding of up to \$1.7 million per year for a total of \$5.1 million over three years through the Public Purpose Program charge funds collected and regulated by the California Public Utilities Commission (CPUC). Energy efficiency programs are expected to begin sometime in Fiscal Year (FY) 2021-2022. The programs are expected to annually reduce 2.8 million kilowatt-hours (kWh) of energy and help avoid 905 metric tons (MT) of carbon dioxide equivalent (CO₂e) of emissions, as well as reach 250 residential households and 103 businesses and schools annually. SJCE can reapply for ETA funding every 3 years.

BACKGROUND

On August 8, 2017, City Council approved an ordinance establishing a Community Choice Aggregation (CCA) program to be named San José Clean Energy (SJCE) and amending Title 26 of the San José Municipal Code (Code) to create the Community Energy Department (CED) of the City of San José to manage the CCA program. Under the adopted Title 26, sections 26.40.010 and 26.40.040 of the Code, SJCE may provide any energy efficiency, rate assistance, and other energy programs as approved by the City Council. In addition, under section 2.04.4620.E, the Director of the Community Energy Department (Director) shall “[d]evelop and implement local energy efficiency, renewable energy, and other energy programs.”

In February 2018, the City of San José was one of the first U.S. cities to adopt a Paris Agreement-aligned climate action plan, named Climate Smart San José (Climate Smart). This is a data driven plan with goals and actions focused on three components: energy, mobility, and water. It details not only ways to reduce the City's carbon footprint but also to improve the quality of life for those who live and work in San José.

On May 15, 2019, SJCE provided an update to the Transportation and Environment (T&E) Committee on the community energy programs planning process.

On March 2, 2020, SJCE provided an update to the T&E Committee on SJCE's preliminary program roadmap that detailed the initial programs SJCE recommends offering based upon guiding principles and objectives.

On October 5, 2020, SJCE provided an update to the T&E Committee on SJCE's program roadmap.

ANALYSIS

Elect to Administer Energy Efficiency Programs

Energy Efficiency Programs Strategic Alignment

As the SJCE Programs Roadmap details later in this memorandum and in Attachment A, energy efficiency programs fit within one of SJCE's targeted program areas and are listed as a near-term program to begin to implement within the 2021-2022 timeframe. Offering energy efficiency programs will also align with Climate Smart San José strategies 2.2 and 3.2 to reduce household energy use and accelerate electrification. Finally, the design of SJCE's energy efficiency programs will support SJCE program guiding principles by promoting equity, reducing GHG emissions, and producing community benefits by saving households and businesses money on their electricity bill.

CPUC Elect to Administer Energy Efficiency Program Requirements

The CPUC regulates ratepayer-funded energy efficiency programs in California. There are two pathways for a CCA like SJCE to administer ratepayer-funded energy efficiency programs: 1) the apply to administer (ATA) pathway, and 2) the elect to administer (ETA) pathway. While potentially providing a larger program budget, the ATA pathway is a longer and more complex process to apply for and is more administratively burdensome during program implementation compared to the ETA pathway. ***CEC staff recommend the ETA pathway to introduce programs more quickly to residents and businesses and allow CEC staff to work with a more manageable portfolio of programs prior to deciding how and where to expand the programs.***

To apply, SJCE must first submit a Tier 3 Advice Letter to the CPUC detailing their program plans.¹ The ETA pathway provides a 3-year program plan and budget. At the end of the 3-year cycle, SJCE can reapply to continue administration of ratepayer-funded energy efficiency programs. Other administrators of ETA funds, such as BayREN, have been approved for multiple 3-year program cycles. Other CCA's that have been approved for CPUC ETA programs are currently in their first 3-year program cycle.

CPUC requires administrators of its Energy Efficiency rate-payer programs to regularly report on the progress of program activities. Reporting is tied most closely to the energy savings and project costs associated with individual and aggregate verified project installations, with SJCE and CPUC recognizing and abiding by legal and organizational requirements for Personal Identifying Information for participating customers. CPUC reporting requirements involve monthly, quarterly, and annual reports; Annual Budget and Advice Letter Filing; and ad hoc data requests from CPUC and its evaluators²

Funding Determination

The CPUC established in their Decision 14-01-033 a methodology to determine CCA program funding for the ETA pathway.³ Based on that methodology, CED determined that approximately \$1.7 million per year in eligible funds will be available for CPUC-funded SJCE energy efficiency programming. ***This \$1.7 million annual funding will be available for three years leading to a total budget of \$5.1 million over three years.*** The actual annual elect to administer energy efficiency program budget for SJCE – up to the \$1.7 million maximum funding availability – will be determined based on the total portfolio of programs that can meet or exceed the CPUC cost effectiveness test, which is discussed below.

¹ Whenever determination of an Advice Letter requires more than ministerial review, the Advice Letter is classified as Tier 3 and the disposition of the Advice Letter on the merits will be by a vote of the CPUC through a resolution considered at a public meeting of the CPUC.

² The CPUC does not assess penalties if performance metrics, such as energy reduction targets, are not achieved.

³ Decision 14-01-033, p.22

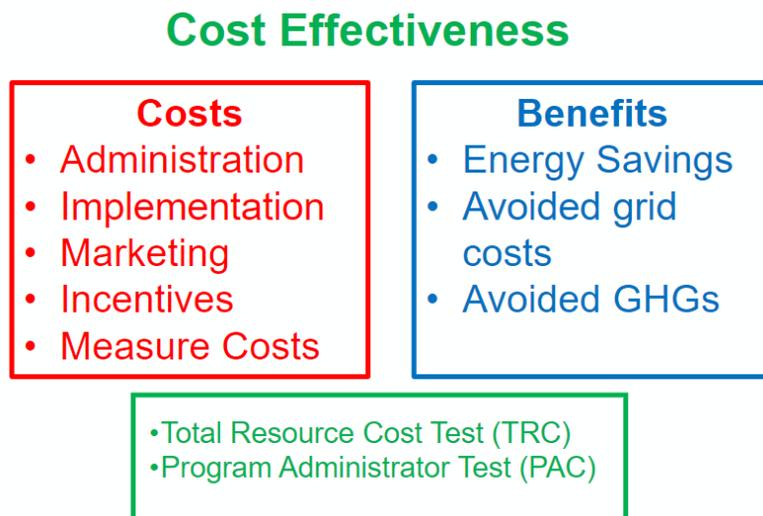
Market Assessment

SJCE customer energy use data was analyzed to identify customers and sector categories that could qualify for cost effective energy efficiency program measures. CED staff, together with the project's Consultant, Frontier Energy, also segmented commercial customers into the North American Industry Classification (NAICS) codes in order to further identify sub-sectors to target for energy efficiency measures. Finally, existing Bay Area Regional Energy Network (BayREN) and Pacific Gas and Electric Company (PG&E) programs were analyzed to understand current offerings to San José residents and businesses as well as energy efficiency measure uptake across the city.

Cost Effectiveness Test

A critical element in receiving CPUC approval to administer ratepayer-funded energy efficiency programs is to justify and present a program portfolio that exceeds a total resource cost (TRC) test of 1.0. The TRC is a CPUC-specified calculation methodology to measure a program portfolio's cost effectiveness by subtracting the portfolio's costs (administrative, implementation, incentives, marketing, etc.) from the portfolio's benefits (energy savings, avoided grid costs, avoided greenhouse gas emissions). Energy savings, the most important variable of the TRC calculation, must be energy savings that exceed the California codes and standards for the measure or appliance being installed. Energy savings of each measure, along with many of the variables within the TRC calculation, are a set of pre-determined values provided by the CPUC. Thus, much of what impacts the TRC is already fixed, so the task is to find a combined portfolio of energy efficiency measures that produce energy savings large enough to offset costs to meet or surpass a TRC of 1.0, based on SJCE's mix of customers and customer electric load.

Figure 1. Cost Effectiveness Test Components



Recommended Programs

After conducting the market assessment and cost effectiveness test, SJCE and Frontier identified two program concepts that would deliver energy efficiency savings to customer segments currently not targeted by existing BayREN and PG&E programs while achieving a TRC greater than 1. Staff vetted program concepts with the Clean Energy Community Advisory Commission (CECAC), BayREN, and other non-profit organizations working in the energy efficiency space.

The chosen programs address and align with several of the SJCE program guiding principles (below), as well as aligning with Climate Smart and its strategies 2.2 and 3.2, reducing greenhouse gas emissions, promoting equity by targeting programs toward moderate-income residents, and producing community benefits by savings residents and businesses money on their energy bill. The programs will also produce community benefits by supporting jobs and COVID-19 economic recovery through the projects implemented at residences, schools, and businesses. Finally, these programs sustain the financial stability of SJCE by being funded externally through the CPUC.

A. Proposed ETA Energy Efficiency Program Overview

Single-Family Home Energy Efficient Electric Appliances

This program will offer incentives on energy-efficiency electric appliances to moderate-income⁴ residents living in single-family homes. The electric appliances will include high efficiency washing machines and dryers, smart thermostats, refrigerators or freezers, room air conditioners, and smart power strips. SJCE will select a third-party implementer who will use bulk buying power to drive down the cost of appliances as well as install the appliances. SJCE energy efficiency funds will provide an additional discount, further driving down the price of the appliances.

The program will complement BayREN's existing residential electrification incentives for heat pump water heaters and induction cooktops that support the switch from gas to electric appliances.⁵ *This program will most importantly bring clear energy and bill savings to San José residents by replacing older, less efficient appliances with new and energy efficient electric appliances.* It will also introduce products and services from SJCE that its customers will be able to directly see and use. Finally, the smart thermostat incentive provides an opportunity for SJCE to integrate future demand response programs in order to reduce energy consumption during peak times of the day (4:00 p.m. to 9:00 p.m.) - saving customers money and reducing both greenhouse gas emissions and SJCE procurement costs.

⁴ Moderate-income is defined by the CPUC as household income falling between 200% and 400% of federal poverty guidelines, or \$52,400 to \$103,000 for a family of four. These limits fall under 80% Area Median Income for San José, which the State considers to be moderate-income for affordable housing purposes.

⁵ <https://www.bayren.org/electrification>

Commercial and Schools

For businesses, this program will offer rebates for energy efficient heating, ventilation, and air conditioning (HVAC) systems and components as well as refrigerated display cases. For schools, the program will offer rebates for energy efficient HVAC systems and components as well as water heating system components. Implementation of this program will be contractor-driven. SJCE will select a third-party implementer to establish a short list of “premier vendors” program manufacturers of Variable Speed Drive HVAC controls, and work with them to identify and recruit high performing HVAC contractors that are part of the vendor network and work in SJCE territory. Customers will work with program contractors for project installation, or in some cases, self-install. After project completion and submittal of all appropriate documentation, SJCE will send the rebate, funded by CPUC program funds, to the contractor or the customer as applicable.

This program will provide long-term benefits for SJCE by building relationships across multiple customer segments to help spur future programs. From an equity perspective, HVAC system and component incentives will help to introduce improved air quality at San José schools, which is especially important due to the effects of COVID-19.

B. Proposed Budget and Impact

	Annual Budget	Annual Net kWh Savings	Annual Net Therm Savings	Annual MT CO _{2e} Savings
Single-family program	\$254,548	42,765	2,758	26
Commercial and schools	\$1,442,437	2,761,660	47,041	879
Combined portfolio	\$1,696,985	2,804,425	49,799	905

C. Customers Targeted

Single-Family Home Energy Efficient Electric Appliances

The program will target single-family home residents that do not qualify for PG&E’s Energy Savings Assistance program (because their incomes are above the upper limit for those programs), but are considered moderate-income in the City of San José per California Department of Housing and Community Development income limits.⁶ Staff estimate that approximately 32,500 households fall into this income bracket, and at least 2,000 are estimated to need to replace a non-functioning appliance each year. *Staff expects to enroll an average of 250 households per year over the 3-year program.*

⁶ Santa Clara County, Moderate Income per <https://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/income-limits-2020.pdf>

Commercial and Schools

The program will target small to medium-sized businesses and organizations such as dental, nursing, and medical offices; small to medium retail stores; restaurants; and convenience stores. ***Staff expects to enroll an average of 100 commercial entities per year over the 3-year program. The program will also target approximately three schools per year from school districts in San José.***

D. Cost Effectiveness Results

The estimated combined TRC of the two programs is 1.11, which exceeds the CPUC threshold of “greater than 1.”

Marketing, Outreach, and Customer Enrollment Strategies

A. Marketing and Outreach

Single-Family Home Energy Efficient Electric Appliances

SJCE will conduct a trilingual marketing and outreach campaign to reach residents who may qualify for the program. Staff will utilize Geographic Information System (GIS) maps with demographic information including income and language to target outreach on a neighborhood level. In addition to using traditional marketing tactics such as direct mail; email; social media; and outdoor, radio, and digital advertising, SJCE will leverage existing relationships with neighborhood associations, Council offices, schools, churches, and other local neighborhood groups. Staff will use CPUC program funds to enlist community-based organizations (CBOs) to help reach residents who do not have internet access through phone banking, texting, and/or holding virtual events accessible by cell phone (and in-person events in future years). SJCE will also leverage the relationships developed by other departments, including those the Environmental Services Department (ESD) developed with community groups through their Better Buildings Program San José and Building Decarbonization Roadmap development process. Further, SJCE will aim to partner with BayREN to conduct joint marketing and outreach to offer customers a streamlined option of incentives for different appliances and energy efficiency upgrades.

Commercial and Schools

Commercial customers and schools will be recruited and enrolled in the program through direct outreach, namely contractor outreach to their networks and SJCE outreach to their existing channels and partner networks. During their launch, SJCE built relationships with numerous school districts, local business districts, chambers of commerce, and other business organizations. SJCE can leverage ESD’s relationships and experience working with businesses and schools on energy efficient projects. These projects included working with various businesses through San José Energy Watch and with schools in partnership with Ecology Action.

SJCE can also leverage the experience and contacts of other City departments such as OED and Council Offices.

B. Customer Enrollment

Single-Family Home Energy Efficient Electric Appliances

The Program Implementer will aggregate customer demand for the neighborhood and coordinate with appliance vendors to source products and secure discounts. When a customer expresses interest in the program, the Program Implementer will verify their eligibility and present the appliance package options and purchase prices with discount and layered incentive information. The customer then selects the appliance package, and the discounts and incentives will be applied at the point of purchase.

Commercial and Schools

SJCE and project contractors will educate potential commercial and school customers about the SJCE program, providing them with initial program enrollment materials including the participating contractor list.

Next Steps and Timeline

As part of the 2021-2022 Proposed Budget process, the CED is developing a staffing plan to coordinate and deliver SJCE programming related to energy efficiency and renewable energy deployment in accordance with the Programs Roadmap. The initial staffing rollout will primarily leverage CPUC project funding to finalize and track project scope, oversee the project implementer, and perform various administrative duties, including reporting to the CPUC.

The timeline below provides an overview of the estimated pathway from submitting the Advice Letter to the CPUC to program launch. The timeline could be impacted by external factors out of SJCE's control, including CPUC energy efficiency proceedings and COVID-19's ongoing impact.

- Submit Advice Letter to CPUC: Late March 2021
- CPUC Advice Letter Review and Feedback: April to October 2021
- CPUC Advice Letter Approval: as soon as July 2021, up to November 2021 or later
- Program Design and Implementation Plan Updates: November 2021 – January 2022
- Program Launch: Q1 2022

Prior to CPUC approval, staff will hold a Request for Qualifications for third-party project implementer(s) for each program. Following CPUC approval, staff will execute contract(s) with winning implementer(s), bringing winning bid(s) to Council for its consideration as needed, depending on the amount of the contract(s).

Programs Roadmap

The SJCE programs roadmap, Attachment A to this memorandum, lays out a strategic vision on both the process SJCE will follow to select customer programs, and the types of customer programs SJCE may pursue.

The rest of the analysis on the programs roadmap provides more details on community outreach, program areas, program guiding principles, and near term programs.

Programs Roadmap Input Thus Far

CED staff has conducted extensive outreach to both internal and external stakeholders to help shape the programs roadmap over the past two years. Early in the process, CED staff benchmarked and catalogued Bay Area CCAs' programs. These CCA programs choices and strategies have provided useful input toward SJCE's selection of program areas and program ideas. In 2019, CED staff conducted numerous forms of community outreach including multi-language focus groups, online surveys, community presentations, and commercial and industrial customer interviews. In 2020, the programs roadmap was presented to, and received feedback from, the Clean Energy Community Advisory Commission (CECAC) and the T&E Committee in March and October of that year. During these reviews, two topics were agreed upon: 1) Program Guiding Principles and 2) Program Areas. The Rocky Mountain Institute/World Resources Institute-led workshop helped fine-tune key topics in the programs roadmap, including measuring and evaluating equity, as well as prioritizing programs -for the future.

Program Areas

SJCE will primarily focus on the program areas below, which have been chosen through the process described above and with the CECAC. The program area recommendations are based on both other CCAs' experience as well as the program area's connections to Climate Smart and SJCE's program guiding principles listed in the next section.

- Building Electrification
- Energy Efficiency
- Vehicle Electrification
- Program-Specific Rates
- Distributed Energy Resources
- Resiliency

Program Guiding Principles

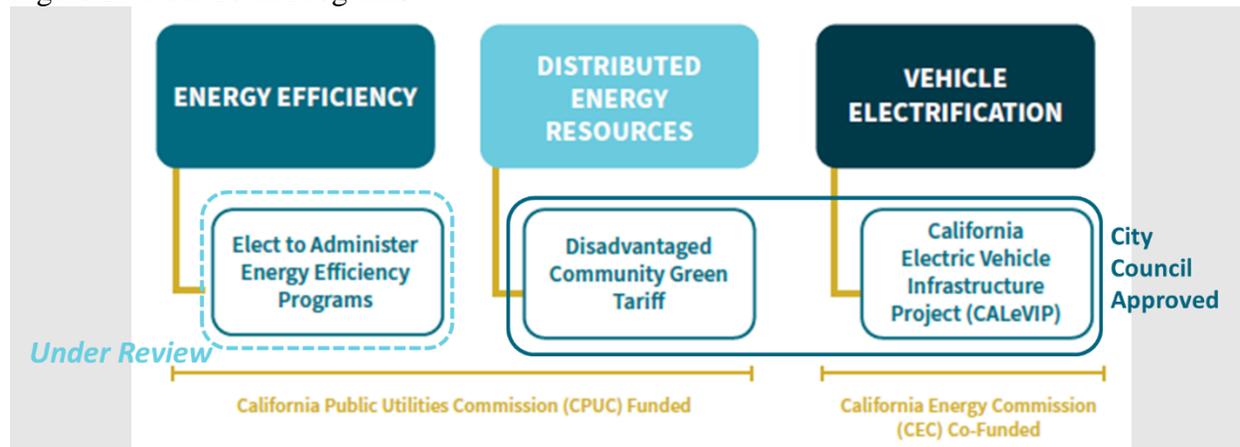
CED staff have developed a program selection framework, based on the program guiding principles approved by the City of San José T&E Committee on June 3, 2019, and used it to help guide the selection of programs both in the near term and long term.

- Promote equity and affordability and support disadvantaged communities.
- Maximize greenhouse gas reduction opportunities.
- Align with Climate Smart San José.
- Produce customer and community benefits.
- Maintain or improve the financial status of SJCE.

Near Term Programs (2020-2022)

Prior to SJCE reaching financial operating targets, near term programs will be pursued with an emphasis on SJCE’s ability to leverage external or matched funding. The first such programs are shown in Figure 2 below.

Figure 2. Near Term Programs



CONCLUSION

The program roadmap provides the structure and direction for future SJCE programs. This includes depicting the strategic alignment with City Climate plans and priorities. In the near term, SJCE will focus on programs leveraging external funding and education and outreach to make significant progress and set the groundwork for future program success.

The energy efficiency programs will produce energy savings for San José households, businesses, and schools, reduce greenhouse gas emissions, and support economic recovery after COVID-19. These programs will also allow SJCE to build customer relationships and intelligence to leverage for the design and development of future programs.

EVALUATION AND FOLLOW-UP

The SJCE programs roadmap will be a living document that goes through formal revisions every two years to adjust to changes in community needs and priorities, as well as in technological advancements and market conditions. CED staff will provide periodic updates to the T&E Committee on results of program implementation.

CLIMATE SMART SAN JOSÉ

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative 1: Energy Efficiency Programs in Multi-Family Dwellings

Pros: This option likely would target a larger pool of moderate-income residents.

Cons: This option was not pursued since the market for energy efficiency programs for multi-family dwellings in San José is already effectively covered through existing PG&E and BayREN's multi-family programs.

Alternative 2: Commercial Programs with Businesses only

Pros: Excluding schools may allow more focus in aspects of program implementation, including marketing.

Cons: This program option was not selected due to the challenges in meeting the amount of businesses (325 sites) that needed to be served each year in order to meet CPUC cost effectiveness thresholds.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the March 9, 2021 City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the Environmental Services Department.

COMMISSION RECOMMENDATION/INPUT

The Clean Energy Community Advisory Commission (CECAC) voted at its meeting on February 11, 2021 to support the staff recommendation. Although the CECAC identified many challenges for CED staff to consider and overcome in the Elect to Administer (ETA) energy efficiency program design and implementation, the CECAC agreed that the program's financial benefits to the community, greenhouse gas reduction potential, and the opportunity it provides to SJCE to deepen community engagement merit pursuing the application to be an ETA energy efficiency program administrator. The CECAC requests quarterly updates on program progress.

FISCAL/POLICY ALIGNMENT

The recommended actions support the Climate Smart Plan (City Action 1.1-B/1.1-E/1.1-F/1.1-J/2.2-E/2.2-K/2.3-A/2.3-C/2.3-I/3.2-D/) and the Envision San José 2040 General Plan (Action TR-1.16 and Appendix 8: Greenhouse Gas Reduction Strategy).

COST SUMMARY/IMPLICATIONS

Elect to Administer Energy Efficiency programs will leverage external funding administered by the CPUC and are anticipated to cover all costs of ETA program administration. If approved and awarded by the CPUC, \$1.7 million of grant funding will be appropriated each year for three years beginning in fiscal year 2020-2021 through 2023-2024 to the San José Clean Energy Fund. These funds will be used to support the programs that align with SJCE's Programs Roadmap, including eligible staffing costs. Budget actions to recognize and appropriate CPUC funding will be brought forward for City Council consideration after formal award as part of a future budget process. The allocation of funding over a three-year period will be considered during the development of the 2021-2022 Proposed Operating Budget.

CEQA

Not a Project, File No. PP17-008, General Procedure & Policy Making resulting in no changes to the physical environment.

/s/

Lori Mitchell
Director, Community Energy

For questions, please contact Zach Struyk, Assistant Director of Community Energy, at (408) 535-4868.

Attachment A: SJCE Programs Roadmap