

California's Cost-Effectiveness Approach Precludes Valuable Energy Efficiency



October 2020

Private Investment Should Be Encouraged

The Total Resource Cost (TRC) undermines the cost-effectiveness of “resource” energy efficiency (EE) and discourages private investment by making no distinction between ratepayer and participant costs. The TRC test includes both private and ratepayer investments as costs, undercutting enormous potential benefits. Since private investment is not a cost borne by the state or through bill riders it should not count against a particular EE measure or program, and therefore should be excluded from the TRC calculation. Moreover, EE resource program participants invest willingly for a variety of reasons, including for non-energy benefits, and do not view energy efficiency investments within the narrow scope of CPUC-defined cost tests. This flaw of the TRC impedes California from achieving its climate and energy savings goals.

Costs are Overcounted in California's TRC

The TRC test significantly overemphasizes EE costs compared to other cost-effectiveness tests. Analysis shows that, on average, measure costs represent nearly double that of incentives under TRC.¹ This particularly **strong influence of measure costs unnecessarily deflates EE cost-effectiveness**, especially when combined with unacknowledged private investment benefits. This translates to an artificial overrepresentation of costs in TRC that negatively impacts otherwise cost-effective programs, under-estimates economic potential, and stymies ratepayer investment in EE that provides a return through a reduction in the cost-of-service.

TRC Harms Ratepayers, Reduces EE Offerings

The TRC fails to appropriately take into consideration the economic, grid integration, grid reliability, climate, environmental, and equity policy objectives that EE and demand response fulfill. As a result, staying with a **current form of the TRC inadvertently increases the difficulty and expense of achieving our State's urgent policy goals by undervaluing efficiency and demand management**, reinforcing barriers to private investment, and failing to properly support

¹ Adam Scheer, Recurve Analytics, “Whitepaper: Evolving Cost-Effectiveness Policy and Tools to Enable Modern Energy Efficiency and Demand-Side Management”, page 16. October 2019.

California's Climate Change goals. This hinders efforts to bring to scale these resources to help meet increasing demand flexibility and resiliency needs, and improperly favors more expensive (and potentially carbon-emitting) alternatives.

Cost-effectiveness reform is critical

Ratepayers get better value for investment via PAC

The Program Administrator Cost Test (PAC) can significantly expand the scope and level of energy efficiency delivered by addressing many of the central challenges of the TRC. The PAC test offers the following benefits compared to the TRC test:

- Encourages EE implementers to focus on barrier elimination and market transformation and leverage as much private investment as possible to make every ratepayer dollar go further, consistent with State strategies and CPUC guidance on incentives.
- Excludes participant costs, ensuring that both ratepayer and private investment costs are not added to the cost, thus leading maximizing opportunities.
- Enables more appropriate and comparable measurement of cost-effectiveness relative to other non-EE resources.
- Facilitates increased private investment during critical periods (e.g., experienced during fire season), and during and after the COVID economic and health crisis.

CPUC Should Adopt PAC for Cost-Effectiveness

- Immediately adopt the PAC test to repair broad cost-effectiveness assessment issues.
- PAC adoption as the cost-effectiveness assessment test will encourage private investments in EE, resulting in a significant expansion in available programs to ratepayers, energy savings on the California grid, and cost reductions on customer bills.
- Valuing private investment takes into account the choices ratepayers make when considering upgrades to their homes and businesses.
- PAC allows for direct “apples-to-apples” comparison with other resources.
- While the PAC test is an important metric for resource acquisition programs, the costs and benefits of critical programs that do not directly drive savings need to be assessed differently, e.g. workforce, education & training, marketing, education & outreach, etc.
- TRC disadvantages EE in comparison to other resources, making for an apples-to-oranges comparison thereby reducing the value of EE.

Greg Wikler, Executive Director (gwikler@cedmc.org) – www.cedmc.org