BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues.	Rulemaking 13-11-005 (Filed November 14, 2013)

NOTICE OF EX PARTE BY CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL

Date: March 10, 2021

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Pursuant to Rule 8.4 of the Commission's Rules of Practice and Procedure, the California Efficiency + Demand Management Council (the "Council") hereby timely gives notice of the following ex parte communication.

The communication occurred on Tuesday, March 9, 2021 and took place telephonically. The communication was oral and included a written document. The written communication was a document entitled "California's Cost-Effectiveness Approach Precludes Valuable Energy Efficiency" prepared by the Council in October 2020 which was provided to the Commissioner Shiroma's Chief of Staff and Legal Advisor Leuwam Tesfai and Energy Advisor Cheryl Wynn prior to the meeting and which is attached hereto as Exhibit A.

The communication was initiated by Greg Wikler, Executive Director of the Council and occurred telephonically at 2:30 p.m. with Leuwam Tesfai, Chief of Staff and Legal Advisor to Commissioner Shiroma and Cheryl Wynn, Energy Advisor to Commissioner Shiroma, and lasted approximately 30 minutes. The Council timely filed and served a Three Working Days' Notice of this communication on March 1, 2021. Present at this meeting, along with Leuwam Tesfai and Cheryl Wynn, were Greg Wikler, Executive Director of the Council; Serj Berelson, Director of Policy & Strategy of the Council; Joanne O'Neill, Council Board Member; and Megan M. Myers, Attorney for the Council.

Mr. Berelson began the meeting by providing background information on the Council. Mr. Wikler stated that the Council appreciates the effort made by the Commission to promote and support energy efficiency activities. However, there are still some challenges that must be recognized and acknowledged. Mr. Wikler continued that there are two areas where reform is urgently needed: (1) cost-effectiveness and (2) custom projects for large commercial and industrial efficiency projects. Mr. Wikler further stated that there are relatively straightforward fixes that can be done quickly by the Commission to address these issues.

Mr. Berelson stated that cost-effectiveness as it currently exists is impeding energy efficiency and the Total Resource Cost (TRC) that is used for energy efficiency in California overstates project costs and discourages private investment. Mr. Berelson stated that the Council recommends that the Commission switch to the Program Administrator Cost (PAC) for assessing the cost effectiveness of energy efficiency projects and portfolios because ratepayers will get better value for their investment. Mr. Wikler stated that there are several other jurisdictions in the country that are starting to use the PAC test. He also indicated that a move to the PAC test aligns energy efficiency more equitably with other resources when looking at energy resources in an integrated manner. Ms. O'Neill stated that the TRC looks at the total cost of a project regardless of how it is funded which is a fundamental flaw and is leading to substantial underachievement of this resource.

In addition, Mr. Wikler stated that the Commission should reform the way custom projects are reviewed and processed. There has been a significant decline in interest in custom projects and a lot of that has to do with the customer frustration with the process. He reiterated the Council's request of Commission staff to sunset the Custom Review Process in order to set the stage for greater uptake of energy efficiency projects. Ms. O'Neill stated that in order for California to meet its goals, there need to be customers who are willing to commit energy efficiency projects and the current process is not conducive to meeting the opportunities available from the market.

In further compliance with Commission rules and the instructions included in Commissioner Shiroma's Meeting Request form, this Notice has been served on the R.13-11-005 (Energy Efficiency Rolling Portfolio) Service List and electronically copied to Shiroma.Exparte@cpuc.ca.gov. Additional service by U.S. Mail to the Administrative Law Judge has been temporarily suspended by the Commission.

Dated: March 10, 2021

Respectfully submitted,

/s/ GREG WIKLER

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EXHIBIT A

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