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)

OPENING COMMENTS OF
THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL
ON ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON DRAFT POTENTIAL AND GOALS STUDY

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Serj Berelson
Director of Policy & Strategy
California Efficiency + Demand Management Council
1111 Broadway, Suite 300
Oakland, CA 94607
Telephone: 415-690-0281
E-mail: policy@cedmc.org

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I. INTRODUCTION

The California Efficiency + Demand Management Council[1] ("The Council") respectfully submits these Opening Comments on the Administrative Law Judge's ("ALJ's") Ruling Inviting Comments on Draft Potential and Goals Study ("ALJ Ruling"), mailed in R.13-11-005 (Energy Efficiency Rolling Portfolio) on April 23, 2021. These Opening Comments are timely filed and served pursuant to the Commission's Rules of Practice and Procedure and the instructions accompanying the ALJ Ruling.

II. SUMMARY

The Council recognizes the diligent work conducted by the Guidehouse team, Energy Division Staff, and stakeholders in developing the energy efficiency ("EE") Potential and Goals ("P&G") study for 2022 to 2032. This study has a number of significant enhancements relative to previous P&G study iterations and for that the Council commends the Commission for acting upon earlier recommendations made by the Council and many other stakeholders. However, the Council has concerns about the implications of the Commission adopting EE savings goals in the same manner as previous decisions. If the Commission retains past practice and adopts the Reference Scenario for goal setting purposes, the proposed goals will have negative impacts on California's energy efficiency industry and will inhibit the ability for the state to achieve the goals identified in SB 350, SB 100, and Executive Order ("EO") B-55-18. As such, the Council

[1] The views expressed by the California Efficiency + Demand Management Council are not necessarily those of its individual members.

requests the Commission take both immediate and deliberate actions to follow its own guidance and create the steady-state environment that the Commission has identified as key for the Rolling Portfolio to work well in Decision ("D.") 14-10-046:

> *"For "Rolling Portfolios" to work well, we need a relatively steady-state EE environment. This would mean only modest annual changes in (a) the potentials model, (b) goals, (c) portfolios, and (d) our policies. When these items are dynamic rather than static, a portfolio review is much more difficult."*[2]

Contained in these comments are a number of viable recommendations that we believe will lead to robust growth in EE resource acquisition programs.

III. COUNCIL COMMENTS ON THE ALJ RULING BROADLY

A. Create additional scenario #3 with a PAC test as the threshold

The Council is concerned that none of the scenarios presented in the draft P&G report support overcoming the current policy barriers facing EE resource acquisition programs. These barriers include application of outdated cost-effectiveness methods and restrictive regulatory rules governing energy efficiency projects leading to a discouraged EE marketplace that is increasingly left on the sidelines. Furthermore, the most recent proposed updates to the avoided cost calculator ("ACC") will likely lead to a further erosion of EE potential in future P&G studies. Indeed, during the May 13th Commission P&G workshop, both Pacific Gas and Electric ("PG&E") and Southern California Edison ("SCE") reported that their internal EE portfolio analysis indicates the updated ACC values will result in a significant decrease in the net value of EE portfolios for the next Annual Budget Advice Letter ("ABAL") filings. This situation brings into question whether the investor-owned utilities ("IOUs") will be able to meet the CPUC's 2023 goals according to the Total Resource Cost ("TRC") cost-effectiveness threshold requirements.

Through previous comments in this proceeding as well as past Council comments in the Integrated Distributed Energy Resources ("IDER"), Integrated Resource Planning ("IRP") and Microgrid proceedings, we have maintained a consistent theme advocating that the Commission needs to immediately change its EE cost-effectiveness testing method to the Program Administrator Cost or PAC test. We believe the PAC test more accurately addresses the resource needs given the grid and climate conditions we are facing today. PAC also places energy efficiency on par with other behind-the-meter distributed energy resources ("DERs") as well as supply-side resources. Finally, the PAC test does not penalize the inclusion of project financing as happens when using the TRC test. We believe that removing this barrier to EE financing will unlock significant amounts of additional EE savings that are currently on the sidelines.

For all these reasons, the Council proposes that the Commission direct Guidehouse to re-run its various measure screening steps using a PAC test at a 0.85 C-E threshold with the newest ACC values. Further, we request that the high Scenario 3 P&G study results be used as the basis for setting goals for the 2022-2032 period. Finally, we request that the Commission direct the IOU program administrators ("PAs") to submit their next ABAL filings using the PAC test at a 1.0 threshold with the newest ACC values applied. We believe this last step will enable the IOUs to develop portfolios that will enable more headroom for achieving cost-effective EE resource acquisition.

B. Primary data results are not adequately reflected in the analysis

The Council applauds the Commission and the Guidehouse team for carrying out primary data collection to drive the analysis for the P&G study. Unfortunately, it does not appear that the results of the primary data necessarily led to an increase in savings opportunities that we had expected. As Guidehouse notes in the report:

> *The new Industrial and Agriculture Market Study did uncover additional opportunities for savings by using actual California based data on high savings potential measures. However, overall sector first-year incremental savings are still forecast to decrease over time due to the market saturation of characterized EE measures.*[2]

Based on our assessment, it would appear that a number of viable industrial energy efficiency opportunities that are not typically represented as "measures" were not considered in the analysis. This suggests a significant undercounting of EE potential for the industrial and agricultural sectors. While little can be done at this time to enhance the results, the Council reiterates concerns expressed to the Commission in past filings in this proceeding that it is not appropriate to assess EE potential for these market sectors using a measure-based analytical approach. Many industrial and agricultural EE opportunities are process-specific and not readily identifiable in a measure-level analysis. As such, the EE potential for these sectors is very likely

[2] Attachment 2 of the Ruling, at p. 92.

significantly undercounted. The Council has suggested in previous comments that instead the industrial/agricultural analysis should take a more top-down approach that looks at energy intensities by specific industry and drawing on primary and secondary data sources to inform the development of these intensities.

To remedy this concern, the Council urges the Commission to adopt a modified Scenario 3 (which includes the PAC cost-effectiveness testing using updated ACC values as described in the section above) and also includes the aggressive level of program engagement as well as third-party financing. We believe both of these Scenario 3 levers better reflect the added EE potential that is not captured using the reference level of program engagement.

C. Fuel substitution assessment does not align with state decarbonization policies

The Council is concerned that the fuel substitution assessment is not reflective nor in keeping with our state's aggressive decarbonization policies. We recognize that this is a market issue that cannot be resolved during this P&G study cycle due to limited data about natural gas avoided costs. For context, electric avoided costs have changed significantly over the past few years to reflect the transition of the electricity generation fleet toward clean energy generation and the resulting cost efficiencies. Unfortunately, on the gas side, avoided costs have changed very little over that same time period. We believe natural gas avoided costs do not properly reflect the true cost of carbon. When Guidehouse appropriately applied the analytical tools for fuel substitution they saw very little uptake for fuel substitution measures. We believe this fact needs to be acknowledged by the Commission and request that future P&G studies better reflect more accurate avoided costs for natural gas.

D. BROS measures are undervalued in the TSB metric

The Council is concerned that Behavioral, Retrocommissioning, and Operational measures ("BROs") measures appear to lose value when using the Total System Benefit ("TSB") metric. We believe that this problem is caused by the short effective useful lifetimes ("EUL") that are stipulated for most BROs measures, particularly those for large commercial and industrial ("C&I") EE measure applications. This issue points to a deeper issue about the improper categorization of a number of C&I EE measures with the family of BROs. For example, a number of industrial process measures including piping and various strategic energy management ("SEM") applications that are technically categorized as BROs and subject to 3-

year EULs but have far longer lifetimes than are credited according to the BROs classification. We understand that the Commission is considering a possible EUL rule change for such instances. We hope that with better EUL application, we will be able to realize greater TSB values for a broader range of BROs measures in the future.

IV. THE COUNCIL RESPONSES TO QUESTIONS IN THE ALJ RULING

1. **Commission staff proposed four scenarios that attempt to capture a reasonable range of energy efficiency potential for 2022-2032.**

    a. **Which scenario – either in the Guidehouse study or an alternative recommendation – is most appropriate to inform 2022-2032 goals? Please justify your recommendation.**

    b. **If you recommend the scenario based on IRP optimization for electricity, then which scenario (or other approach) should fuel substitution and natural gas energy efficiency be based on – and why?**

The Council has already indicated its preference for using the high scenario 3 using a PAC test threshold of 0.85 and updated ACC values. While this approach might delay the issuance of a final P&G PD and may necessitate pushing back PA ABAL filings by a few months, we believe it is most critical to get the analysis right such that EE portfolios are expanded in 2022 rather than contracted. This step will help the Commission align the EE resource acquisition portion of its various EE oversight activities with the State's SB 350 goals.

2. **D.19-08-009 specifies that we should subtract converted gas savings from fuel substitution measures and add those to electric savings goals, to set goals for fuel substitution. The draft 2021 study includes results that pre-assign fuel substitution potential to electric savings, as well as results that express fuel substitution savings in MM Therms reductions and GWh increases. Given that the study includes calculations that pre-assign forecasted fuel substitution savings to the electric sector and reductions to the gas sector, are there further steps that the Commission should consider when adopting goals?**

The Council has already expressed concerns about the under valuation of fuel substitution measure potential given the discontinuity between electric and gas avoided costs. As such, we do not believe that the above-referenced method for determining fuel substitution goals should be applied during this period. Alternatively, we recommend that the Commission adopt previous methods for setting fuel substitution goals for the 2022-2032 period, develop appropriate fuel substitution goal-setting methods through stakeholder forums such as the California Energy Efficiency Coordinating Committee ("CAEECC"), and then apply the goals to the next P&G goal-setting cycle in 2024.

3. **The proposed decision issued on April 16, 2021 proposes to adopt total system benefit as the goals metric for energy efficiency resource portfolios beginning in 2024, and as an informational metric beginning in 2022. The study includes a methodology for calculating total system benefit and Appendix J.1.3 summarizes the definition of total system benefit as the "total net benefit that a measure provides to the electric and natural gas systems."**

    a. **Do you agree with this definition and the study's methodology for calculating total system benefit? If not, please identify an alternate definition and/or calculation methodology including inputs and data sources.**

    b. **For fuel substitution, the study uses a methodology that subtracts increased electric supply costs (using the marginal cost of supplying electric service, as estimated by the Avoided Cost Calculator) from gas and electric benefits to calculate total system benefit. Do you agree with the methodology used in the study to calculate total system benefit for fuel substitution? Why or why not? If you disagree, please provide an alternative calculation methodology.**

The Council generally agrees with the TSB method as proposed. One aspect of the TSB that concerns us relates to the application of a net-to-gross ("NTG") ratio when comparing EE resources to supply-side resources. This creates an imbalance when comparing these resources as there are no NTG considerations for supply side resources. Further, when considering grid-related impacts and alignment with our carbon reduction policy goals, gross-level EE savings is the most appropriate metric.

4. **Do the adjustments made to estimate COVID-19 impacts reflect an appropriate range of the pandemic's effects? Why or why not? Should these COVID-19 impacts be considered in goals adopted by the Commission – and if so, how?**

The Council appreciates the efforts undertaken by the Guidehouse team to represent the potential impacts of the COVID-19 pandemic. Unfortunately, many of our implementers have seen that COVID-19 is affecting different segments and different sectors in different ways. For the commercial sector, the negative effect of COVID-19 on EE deployment (e.g., increased transaction costs, delays, payment issues, etc.) are just now being realized but yet these impacts are not evident in the sensitivity.

Further, there are certain long-term baseline energy usage impacts that do not appear to have been reflected in the COVID-19 sensitivity. While there is little that can be done in terms of shaping policy, we urge the Commission to address this issue in an Evaluation, Measurement, & Verification ("EM&V") capacity over the next 1-2 years.

5. **Do you agree with the data assumptions and methodology used in the study? If not, please provide justification and indicate which alternative publicly available data sources should be used, and/or specific alternative methodological approaches.**

The Council appreciates the use of primary data that helped inform this study. We had hoped that the application of that data would have led to more robust estimates of market potential. Over the past year and a half, we have offered our suggestions about the potential use of alternative methodologies for developing EE potentials. We appreciate Guidehouse's efforts to develop viable alternative methods for determining market potentials. We encourage the Commission to continue its investigation into alternative potential study methods and be ready to apply these alternative methods during the next P&G study cycle. We believe that broader industry collaboration could be beneficial in this context and encourage the Commission to delegate further investigations about alternative potential methods to the CAEECC forum. This can be done in advance of the next P&G study cycle.

6. **Are there any other comments on the draft study?**

The Council offers no other comments on the draft P&G study at this time.

V. CONCLUSION

We believe the Commission must take this opportunity to take both immediate and deliberate actions to provide the steady-state environment the energy efficiency industry needs to achieve the Commission's and state's long-term energy, environment, and climate goals. The Council appreciates the Commission's consideration and the opportunity to provide comments on this important Ruling.

Respectfully submitted,

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/s/ SERJ BERELSON

Serj Berelson
Director of Policy & Strategy
California Efficiency + Demand
Management Council
1111 Broadway, Suite 300
Oakland, CA 94612
Telephone: 415-690-0281
E-mail: policy@cedmc.org