BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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| Application of Pacific Gas and Electric Company for Approval of 2024-2031 Energy Efficiency Business Plan and 2024-2027 Portfolio Plan (U 39 M). | Application 22-02-005<br>(Filed February 15, 2022) |
| And Related Matters. | Application 22-03-003<br>Application 22-03-004<br>Application 22-03-005<br>Application 22-03-007<br>Application 22-03-008<br>Application 22-03-011<br>Application 22-03-012 |

# OPENING COMMENTS OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON PROPOSED DECISION ADDRESSING CODES AND STANDARDS SUBPROGRAMS AND BUDGETS AND STAFF PROPOSAL ON REDUCING RATEPAYER-FUNDED INCENTIVES FOR GAS ENERGY EFFICIENCY MEASURES

March 23, 2023

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**OPENING COMMENTS OF<br>THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON PROPOSED DECISION ADDRESSING CODES AND STANDARDS SUBPROGRAMS AND BUDGETS AND STAFF PROPOSAL ON REDUCING RATEPAYER-FUNDED INCENTIVES FOR GAS ENERGY EFFICIENCY MEASURES**

## I. INTRODUCTION

The California Efficiency + Demand Management Council (the "Council") submits these Opening Comments on the Proposed Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures ("Proposed Decision"), mailed in this proceeding on March 3, 2023. These Opening Comments are timely filed and served pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure and the instructions accompanying the Proposed Decision.

## II. BACKGROUND

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.[1] Our member companies employ many thousands of Californians throughout the state. They include energy efficiency ("EE"), demand response ("DR"), and distributed energy resources ("DER") service providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and energy

[1] Additional information about the Council, including the organization's current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at http://www.cedmc.org. The views expressed by the Council are not necessarily those of its individual members.

efficient product manufacturers. The Council's mission is to support appropriate EE, DR, and DER policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

## III. SUMMARY OF THE COUNCIL'S POSITION

The Council appreciates the opportunity to submit comments on the Proposed Decision. The Council supports the state's ongoing decarbonization efforts largely through our work to unlock energy efficiency and demand management resources that are vital to lower energy bills, cleaner energy, reliable power, and equitable access to clean energy technologies - all of which are critical to achieving California's ambitious energy and climate goals.

The Council understands building electrification is likely to play a significant role in achieving the state's energy and climate goals. Policy changes that may reduce or eliminate support for energy efficiency measures must be considered carefully, based on objective data and validated resources, and informed by research and input from stakeholders. A long-term view on energy affordability and equity are essential to successfully decarbonizing California's economy. The Council notes our recommendations are accompanied by proposed amendments in Appendix A of our Opening Comments where appropriate. In these Opening Comments, the Council:

- Expresses concerns regarding potential impacts of the Proposed Decision's guidance to promote exempt measures which could require funding to cover additional work by the California Technical Forum ("Cal TF");
- Supports extending the effective useful life of appropriate measure packages to 30 years when supported by evidence;
- Supports requiring program administrators to include a comprehensive strategy for promoting and deploying exempt measures in the equity segment;
- Suggests returning the natural gas cost-effectiveness criteria to the portfolio level to mitigate against stranded savings;
- Expresses concerns regarding undue pressures to define viable electric alternatives ("VEAs") or establish policy before VEA is defined;
- Supports cross-entity collaboration with an emphasis on the process to define VEAs;
- Supports a process to thoroughly consider the viability of an electric alternative that includes the customer's perspective, infrastructure costs, and bill impacts;

- Suggests clarifying bill impacts will be assessed over short-, medium-, and long-term time horizons;
- Suggests incorporating Distributional Equity Analyses in addition to benefit-cost-analyses to capture a more holistic view of policy impacts;
- Suggests incorporating market readiness as a factor in determining the viability of an electric alternative;
- Suggests revising certain aspects of the Commission's processes proposed in this Proposed Decision to revolve around completion of work product(s) or check-in time frames rather than specific dates;
- Expresses concerns about reductions in participants implementing gas efficiency measures in response to market uncertainties and certain sunset dates;
- Suggests the Commission clarifies that the investor-owned utility's ("IOU's") Codes and Standards non-advocacy programs should support transportation electrification and building decarbonization in addition to the advocacy programs; and
- Suggests eliminating the proposed 70% budget threshold for non-advocacy programs and instead review budget percentages and appropriateness through existing processes.

## IV. THE COUNCIL'S RECOMMENDATIONS REGARDING EXEMPT MEASURES

The Proposed Decision directs "program administrators to submit measure packages… and to seek other exempt measures that do not yet have measure packages or that have measure packages that have been sunsetted, for submission in eTRM…."[2] The Council is concerned that this direction could burden the Cal TF with a wave of measure screening and updating. The Commission should facilitate the IOUs increasing funding for the Cal TF as appropriate.

The Council supports the Proposed Decision's proposal to update appropriate measure packages to extend their effective useful life ("EUL") up to 30 years when supported by evidence.[3] The Proposed Decision accurately reflects the current challenges and potential benefits for insulation and other building envelope measures, as an example. This update presents an opportunity to address another parameter that hinders the cost-effectiveness of building envelope measures, specifically out of date net-to-gross ratios. The Council supports

[2] Proposed Decision, at p. 9.
[3] *Id.*, at p. 10.

long-proven energy efficiency benefits of insulation and related measures that have been hindered by outdated net to gross considerations.

The Council also supports the proposal to require program administrators ("PAs") to "include a comprehensive strategy for promoting and deploying exempt measures in the equity segment…."[4] Appropriate energy efficiency measure packages that may see an extended EUL up to 30 years, such as insulation, offer significant benefits but can be costly. With that in mind, the Council believes this proposal will help improve equitable access to energy efficient measures that could otherwise be out of reach.

## V. IMPOSING COST-EFFECTIVENESS CONSDIERATIONS AT THE MEASURE LEVEL POSES RISK AND UNCERTAINTY FOR ALL EFFICIENCY MEASURES

The Proposed Decision imposes new cost-effectiveness criteria at the measure level, a marked change from current cost-effectiveness assessment at the portfolio level.[5] The Council has generally found benefits in measuring cost-effectiveness criteria at the portfolio level allowing programs to minimize stranded opportunities and fund more comprehensive and deep energy savings projects. Evaluating cost-effectiveness at the portfolio level enables program designs that include non-cost effective measures that help bolster program participation and capture greater savings. For example, midstream programs often partner with local equipment distributors and dealers to provide discounts on eligible equipment. Market actors' confidence is critical to the success of those programs, as the resulting partnerships lead to increased dealer stocking and sales of high-efficiency equipment. Cost-effectiveness at the portfolio level enables program designs that cover a larger portion of the supply chain's sales and that become a more intrinsic part of a market actor's business. When programs are designed to align with the market at large, market actors are likely to be more engaged and participatory than if fewer of their products were incentivized. This alignment generally results in higher participation and savings.

The Council is concerned about proposed shift in cost-effectiveness consideration from portfolio level to measure level, breaking with existing policy principles. The Council is particularly concerned regarding the potential impacts to measures that are considered cost-effective at the portfolio level but would not be considered cost-effective at the measure level. Duct ceiling and insulation efficiency measures are two specific examples of energy efficiency

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[4] Proposed Decision, at p. 11.
[5] *Id.*, at p. 14.

measures that deliver benefits to customers because the cost-effectiveness criteria is applied at the portfolio level. Those benefits are magnified when taking energy equity and direct install programs into account.

Though the Proposed Decision currently proposes shifting cost-effectiveness criteria considerations to the measure level only for gas energy efficiency measures, the Council is concerned about the implications for energy efficiency measures generally. This could lead to cost-effectiveness being measured at the measure level for all energy efficiency measures, including electricity. The Council requests the Commission consider and respond to the following questions:

- What is the intent of the proposed shift in cost-effectiveness criteria to gas efficiency measures only?
- Is this shift intended to only apply to gas efficiency measures in the long-term?
- Is this shift intended to eventually apply to electricity efficiency measures?
- If this shift only applies to gas efficiency measures in the long-term, how does the Commission justify those limitations only to gas energy efficiency measures?

If the Proposed Decision's proposed shift in cost-effectiveness criteria were to be implemented, the Council is unaware of a reasoning that justifies preserving that shift to gas efficiency measures only. The Council is concerned that the shift could lead to unintended consequences for all energy efficiency measures currently considered cost-effective at the portfolio level. Those unintended consequences are likely to negatively impact equitable access to energy efficient measures.

The Council urges the Commission to consider, among other factors, the impact on greenhouse gas ("GHG") emissions resulting from decreased program effectiveness and eliminate the proposed shift of gas efficiency measure cost-effectiveness considerations to the measure-level, effectively retaining cost-effectiveness considerations at the portfolio level.

## VI. COST-EFFECTIVENESS AT THE ETRM PERMUTATION LEVEL WILL INCREASE PROGRAM COMPLEXITY AND REDUCE PARTICIPATION

The proposal to adopt cost-effectiveness at the electronic Technical Reference Manual ("eTRM") permutation level would create program complexity that could hinder current and future efficiency programs and result in missed opportunities for emissions reductions.[6] Many measures have hundreds or thousands of permutations in the eTRM. Permutations are created based on building type, climate zone, program type and sector, all of which are utility or Commission constructs and do not necessarily align with zip codes, city boundaries, market terminology, or natural divisions.

Cost-effective program designs offer uniform incentives and define "eligibility" at a high-level to mitigate burdens in the application process and encourage greater participation. Customer eligibility based on permutation would increase the complexity of program implementation and negatively impact program participation. For example, residential storage water heaters have 448 eTRM permutations. To determine if a customer is eligible for residential storage water heater incentives, an implementer would have to identify which of those 448 permutations the customer falls into, as a single eligible measure could present both non-cost effective and cost-effective permutations. There are many current challenges for third party implementers to access customer information, some of which is as basic as a customer's address. Obtaining other permutation data, in addition to a customer's address, is likely to be prohibitively challenging for many potential program participants. Due to those challenges, it is unreasonable for a customer (downstream) or a retailer or distributor (midstream) to correctly determine a customers' eligibility for an incentive based on permutation.

The Council recommends eligible measures be either fully qualified or fully disqualified. This could be achieved utilizing a weighted average of the Total Resource Cost ("TRC") across all the permutations in a measure. Otherwise, if it is deemed essential that cost-effectiveness be determined at a sub-measure level, the PD should be revised to clarify measure cost-effectiveness to be considered at the sector type or program type rather than at the eTRM permutation level.

## VII. THE PROCESS TO DEFINE VEAS MUST BE THOROUGH AND DELIBERATE AND INCLUDE COORDINATION WITH OTHER AGENCIES

The definition of VEA, to be established through the process proposed in Section 2.6 of the Proposed Decision, will impact which gas efficiency measures are deemed exempt or not. As discussed in the Council's previous comments in this proceeding, more information and

[6] Proposed Decision, at pp. 14-15.

dialogue is necessary to properly define VEA.[7] The Council supports the proposal that "a more thorough consideration of the viability of an electric alternative, particularly from the customer's perspective, is warranted, including specifically the bill impacts of substituting the electric alternative for the efficient gas option."[8]

The Proposed Decision should be modified to ensure that VEA is thoroughly vetted and debated amongst stakeholders and agencies before finalizing its definition and that the definition for VEA is finalized before the Commission issues a decision on any policy that utilizes or is impacted by the term. The Council is concerned with the possibility that the Commission may craft policy that impacts or is impacted by the VEA before it is defined. In that instance, the Commission would not be fully leveraging the experience and expertise that could be collected through the stakeholder process.

In addition, the Council identifies parallels between the definition and metrics that determine a VEA and the "technical, feasible, and economically viable" framework that the California Energy Commission ("CEC") utilizes to justify energy codes and standards in Title 20 and Title 24, as established by the Warren Alquist Act.[9] As such, the CEC has a developed methodology for determining feasibility that should be incorporated into future Commission considerations regarding adopting a framework to justify the cessation of gas energy efficiency incentives for a measure due to the presence of a VEA. Title 24 CASE Reports[10] contain a section on feasibility which generally provides data related to product availability, market share, and implementation barriers. Feasibility analysis is often very specific to a measure; for example, the 2022 envelope CASE Report[11] includes four sub-measures, each with its own section on feasibility as a demonstration of the variance in the analysis necessary to justify feasibility. Similarly, CEC Staff Reports submitted in appliance efficiency[12] and energy code[13]

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[7] The Council's Opening Comments on the Codes and Standards Ruling, submitted in this proceeding on September 23, 2022, at pp. 4-7 and the Council's Reply Comments on the Codes and Standards Ruling, submitted in this proceeding on October 3, 2022, at pp. 1-4.
[8] Proposed Decision, at p. 17.
[9]Warren-Alquist State Energy Resources Conservation and Development Act (https://www.energy.ca.gov/sites/default/files/2023-02/CEC-140-2023-001-F.pdf)
[10] 2022 Cycle CASE Reports (https://title24stakeholders.com/2022-cycle-case-reports/)
[11] Nonresidential High Performance Envelope (https://title24stakeholders.com/wp-content/uploads/2020/10/2020-T24-NR-HP-Envelope-Final-CASE-Report.pdf)
[12] CEC Appliance Efficiency Proceedings – Title 20 (https://www.energy.ca.gov/rules-and-regulations/appliance-efficiency-regulations-title-20/appliance-efficiency-proceedings

rulemakings include sections on cost effectiveness and technical feasibility for each proposed measure.

Aligning VEA metrics with the viability framework for Title 20 and Title 24 could inform and streamline the adoption of future standards, as well as leverage decades of lessons learned in capturing the impact to customers. The PD should also propose seeking alignment with the California Air Resource Board ("CARB") which is also exploring a public process for investigating the viability of a zero-emissions standard for space and water heaters through its 2022 State Implementation Plan.[14]

## VIII. BILL IMPACTS SHOULD BE ANALYZED ACROSS SHORT-TERM TO LONG-TERM TIME HORIZONS

The cost implications of de-incentivizing some natural gas energy efficiency measures is a critical component of weighing the viability of an electric alternative to a gas option. Associated costs and billing impacts of electrification must remain a primary criterion when analyzing policy options and impacts. On this issue, the Council previously argued: "[s]hould expected savings fail to materialize in enough instances, public perception on electrification strategies could present a challenge to future adoption" and "[t]o avoid that, early adopters of electrification need to be confident that expectations are matched by results. Understanding billing impacts as electrification is increasingly deployed is critical to identifying 'viable electric alternatives.'"[15]

The Council appreciates the Proposed Decision's proposal to incorporate cost impacts (both cost reductions and increases) associated with electrification in viability criteria.[16] However, it is unclear whether the cost implications associated with electrification are to be assessed over a short, medium, or long-term time horizon. Californians are anticipating changing bill impacts as the state rapidly evolves its energy policies to achieve its energy and climate goals. To better consider the longer term bill impacts customers may experience, it is

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[13] CEC Building Energy Efficiency Standards – Title 24 (https://www.energy.ca.gov/programs-and-topics/programs/building-energy-efficiency-standards)

[14] CARB 2022 State Strategy for the State Implementation Plan, adopted September 22, 2022 (https://ww2.arb.ca.gov/sites/default/files/2022-08/2022_State_SIP_Strategy.pdf)

[15] The Council's Opening Comments on the Codes and Standards Ruling, submitted in this proceeding on September 23, 2022, at p. 5.

[16] Proposed Decision, at pp. 16-17.

important the Proposed Decision be modified to clarify cost impacts embedded in viability criteria are assessed over short, medium, and long-term time horizons.

There are challenges and uncertainties associated with longer term forecasts, particularly in this instance, and further urges the Commission to collaborate with the CEC, California Independent System Operator ("CAISO"), and CARB to leverage the work those entities have already completed and are tasked with completing. Such work, in addition to what was noted above and specific to forecasting, could include the CEC's Integrated Energy Policy Report(s),[17] Gas Research and Development Program Annual Reports,[18] Low-Income Barriers Study, Part A: Overcoming Barriers to Energy Efficiency and Renewables for Low-Income Customers and Small Business Contracting Opportunities in Disadvantaged Communities,[19] and Analysis of Need to Support Reliability regarding the Diablo Canyon Power Plant Extension;[20] CAISO's 20-Year Transmission Outlook,[21] Summer Loads and Resources Assessment,[22] and the Monthly Market Performance Reports;[23] and CARB's 2022 State Implementation Plan. This cross-entity collaboration will provide additional and necessary insight towards effective forecasting and analysis, providing a link between bill impacts and decarbonization policies and goals.

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[17] CEC Final 2022 Integrated Energy Policy Report Update (https://www.energy.ca.gov/sites/default/files/2023-2/Adopted_2022_IEPR_Update_with_errata_ada.pdf)

[18] CEC Gas Research and Development Program: 2022 Annual Report (https://www.energy.ca.gov/publications/2022/gas-research-and-development-program-2022-annual-report)

[19] CEC Low-Income Barriers Study, Part A (https://www.energy.ca.gov/publications/2016/low-income-barriers-study-part-overcoming-barriers-energy-efficiency-and)

[20] CEC Diablo Canyon Power Plant Extension – Final Draft CEC Analysis of Need to Support Reliability (https://lnks.gd/l/eyJhbGciOiJIUzI1NiJ9.eyJidWxsZXRpbl9saW5rX2lkIjoxMDIsInVyaSI6ImJwMjpjbGljayIsImJ1bGxldGluX2lkIjoiMjAyMzAyMjguNzI0NDY0NTEiLCJ1cmwiOiJodHRwczovL2VmaWxpbmcuZW5lcmd5LmNhLmdvdi9HZXREb2N1bWVudC5hc3B4P3RuPTI0ODk3MSZ1dG1fbWVkaXVtPWVtYWlsJnV0bV9zb3VyY2U9Z292ZGVsaXZlcnkifQ.lSkz9ykv1gq0D71wSqYxhFl32Sf0nAsc2pp1WZzJA9c/s/2253892737/br/155280861893-l )

[21] CAISO 20-Year Transmission Outlook (http://www.caiso.com/InitiativeDocuments/Draft20-YearTransmissionOutlook.pdf)

[22] CAISO 2022 Summer Loads and Resources Assessment (http://www.caiso.com/Documents/2022-Summer-Loads-and-Resources-Assessment.pdf)

[23] CAISO Market Performance Reports (http://www.caiso.com/Pages/DocumentsByGroup.aspx?GroupID=A9180EE4-8972-4F3B-9CB8-21D0809B645E)

## IX. MARKET READINESS IS AN IMPORTANT CONSIDERATION IN WHAT VEAS ARE CONSIDERED "VIABLE"

Technology innovation is an important component of advancing the state's climate and clean energy goals. However, there are barriers to adopting new and efficient technologies that technology innovation itself cannot resolve, namely market readiness. There are numerous reasons why commercially available and efficient technologies may not be generally adopted, including limited available information on performance and associated value, perceived challenges, upfront capital cost, and complexity with installation.

The Council therefore recommends that market readiness is an important factor and that the Proposed Decision should be revised to incorporate when defining and deeming if an electric alternative is viable. Defining "market readiness" will require thorough and deliberate discussion among agencies and stakeholders, which is best suited for the Technical Guidance workshop(s) and working group(s). The Council recommends market penetration, design and installation trends, workforce capacity, and supply chain availability be considered in those discussions. Reviewing market readiness as a factor when deciding whether to eliminate incentives for efficient gas measures will help mitigate against customers simply reverting to standard-efficiency gas measures in the absence of incentives for high-efficiency gas equipment (which would result in more greenhouse gasses emitted). The Council also suggests the Proposed Decision be revised to direct the Commission to review the Department of Energy's technology-to-market ("T2M") considerations[24] in assessing the workshop(s) and working group(s).

## X. THERE ARE ADDITIONAL CONSIDERATIONS THAT SHOULD BE INCORPORATED INTO WHAT IS CONSIDERED "VIABLE"

The Council also suggests bill impact analysis incorporate price volatilities in commodity costs, such as the unprecedented cost to procure natural gas for direct use and electric generation from December 2022 through February 2023. Any bill impact analysis should normalize key cost elements to reflect a business-as-usual forecast, thus avoiding any spillover from anomalous cost factors or unrelated bill impacts.

[24] Department of Energy Technology-to-Market (https://www.energy.gov/eere/buildings/technology-market)

The Commission must expand its analyses and considerations beyond costs and participation. As previously argued by the Council, Distributional Equity Analyses ("DEAs") can help address scope limitations of benefit-cost-analyses ("BCAs") and rate, bill, and participation analyses in assessing energy equity.[25] The Council again urges the Proposed Decision be revised to incorporate DEAs into future discussions regarding VEAs.

## XI. THE PROPOSED DECISION'S NEW CONSTRUTION POLICIES ADD BARRIERS TO EFFICIENCY PROGRAM IMPLEMENTATION AND WILL LIKELY DECREASE PARTICIPATION

The Council understands the Proposed Decision's perspective regarding new construction projects and removing incentives for gas efficiency measures in general is that it is "consistent with eliminating subsidies for gas line extensions, as well as with the increased focus on electric readiness detailed in the 2022 Building Energy Efficiency Standards."[26] However, the Council underscores our opening sentiment: policy changes that may reduce or eliminate support for energy efficiency measures must be considered carefully, based on objective data and validated resources, and informed by research and input from stakeholders.

The proposed elimination of ratepayer-funded incentives for non-exempt, non-cost effective new construction gas measures would impose implementation challenges on program implementers and market actors, creating additional barriers to participation. Under this proposal, new construction gas efficiency programs that provide appliance incentives at the point-of-sale, midstream, or upstream level, would require program participants to (1) verify that the end-use of the appliance does not count as "new construction" or that it is categorized as a "major retrofit category", and (2) submit models (on behalf of the end-use customer) that the project does not result in a 30% increase of projected gas usage. Determining if a project will increase gas usage by more than 30% requires calculations, access to historic utility data, and likely modeling. Those efforts will be burdensome for participants to document and verify, adding further challenges to determining eligibility. Market actors, such as dealers and distributors, participate in programs that fit their business model and, importantly, do not inhibit their ability to make a sale. The Proposed Decision's additional requirements on new construction would likely result in decreased program participation.

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[25] The Council's Reply Comments on the Codes and Standards Ruling, submitted in this proceeding on October 3, 2022, at p. 3.
[26] Proposed Decision, at p. 20.

At this time, the Council does not take an explicit position on these issues but urges the Proposed Decision to clarify and emphasize that VEA must be defined through a proper stakeholder process before deciding on changes to gas incentive designs. The Council points to our comments above for further information on the stakeholder process and defining VEA.

Furthermore, the Commission should clarify how it interprets new construction in the context of timing. Construction projects, from the planning through completion phases, often take multiple years to finish. In addition, retrofits that may fall under the CEC's definition of "new construction" face long lead times. The Council recommends the Commission either clarify or solicit stakeholder input on when a new construction project, either in the development stage or under construction or retrofit, would fall under the "new construction" requirements to be established by the final decision.

## XII. THIRD-PARTY PROGRAMS MUST BE MODIFIED

Long equipment lead times, exacerbated by pandemic-related global supply chain issues, can make significant investments in stocking high-efficiency equipment a risk for equipment distributors and dealers. Certainty over the future of midstream incentive programs is important to retaining participant trust in the program. Those market actors are key to the success of any midstream program, regardless of incentivized measures.

The Council is uncertain but weary of the potential impacts of gas energy efficiency measure sunset dates on third-party program participation and customer purchasing behavior. When replacing an old or purchasing a new appliance, the Council has observed that absent financial incentives, customers have tended to pursue the cheaper, less efficient gas appliance option, where the choice is between a minimally efficient gas appliance and a VEA option. For instance, with regard to midstream water heating, a plumber will likely only buy the code minimum unless a high-efficiency product cost can be brought to parity by a rebate/incentive or if the customer is asking specifically for high efficiency. Since most of the market demand for water heating equipment occurs when equipment fails, if high-efficiency gas equipment is not incentivized, plumbers will likely choose the code compliant equipment.

The Council raises these issues to note our concerns regarding potential consequences as well as to urge the Commission to ensure the decision consistently seeks and incorporates customer's and third-party participant's perspectives throughout relevant stakeholder and policy discussions. The Council appreciates the Proposed Decision's acknowledgment of the customer perspective, bill impacts, infrastructure costs, and the need for further deliberative discussion (particularly addressed in Section 2.3.).[27] The Council recommends that policy changes should ideally be communicated 18 months in advance to program implementers and participants to mitigate at least some of the challenges noted above.

## XIII. THE COUNCIL GENERALLY SUPPORTS THE TECHNICAL GUIDANCE PROCESS BUT THE TIMELINES MUST FOSTER DELIBERATE AND THOROUGH DISCUSSIONS

The Council supports the establishment of workshop(s) and working group(s) to develop the Technical Guidance Document for implementing the definition of VEA. The Council also supports the convening of working group(s) to determine how much energy efficiency incentive policy will evolve in relation to custom projects.

The Proposed Decision effectively proposes a deadline for the Technical Guidance working group(s) and workshop(s) to study, debate, and finalize a definition for VEA by the end of 2023.[28] This de facto deadline is due to the recommendation to eliminate ratepayer-funded non-exempt, non-cost-effective gas appliances with viable electric alternatives "beginning in program year 2024…."[29] Were a final decision to be issued today (March 23) with that deadline intact, stakeholders and the Commission would have nine months to gather resources, study, debate, and initiate defining VEA. It is unclear how much time the Commission will need to ensure a thorough and deliberate process is followed. Regardless, the Commission risks not taking full advantage of the stakeholder process and expertise in a suboptimal sequence. Nine months may or may not be a sufficient amount of time to thoroughly evaluate and establish the definition of a VEA.

The Council provides the following recommendation with the understanding that the state's work in decarbonizing the economy must remain expeditious to meet the state's energy and climate goals while respecting the need to ensure broadly impacting policies are vetted and constructed thoroughly: (1) build some of the Proposed Decision deadlines, such as that proposed in Section 2.4, around delivery of work product rather than dedicated calendar dates; or (2) retain the intended calendar dates but clarify the process may be extended or evaluated in the instance the work product is not yet complete.

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[27] Proposed Decision, at pp. 15-18.
[28] *Id.*, at pp. 22-24.
[29] *Id.*, Conclusion of Law 10, at p. 31.

## XIV. THE COUNCIL PROVIDES SEVERAL RECOMMENDATIONS REGARDING CODES AND STANDARDS SUB-PROGRAMS AND BUDGETS

The Council supports the Proposed Decision's proposal that the IOUs' Codes and Standards Advocacy programs must support transportation electrification and building decarbonization, consistent with Pub. Res. Code Section 25402.7.[30] The Council requests the Proposed Decision modify the proposal to clarify that non-advocacy programs can also support transportation electrification and building decarbonization. As the Proposed Decision notes in Findings of Fact 14, non-advocacy programs support the advocacy program efforts. Thus, the Commission should clarify that the IOUs can support transportation electrification and building decarbonization efforts in non-advocacy programs, including Planning and Coordination, Compliance Enhancement, Code Readiness, and Reach Codes.

The Council supports the Commission's interest in ensuring that non-advocacy subprogram budgets are appropriately aligned with advocacy program budgets. However, the Council is uncertain of how the 70% threshold outlined in the Proposed Decision was reached and is concerned it may be arbitrary as well as limiting in scenario flexibility.[31] The 70% budget threshold could unintentionally limit an investor-owned utility's ability to prioritize and target the most effective activities to support the state's clean energy and climate goals.

To a large extent, codes and standards program activities should be responsive to external conditions and regulatory environments. The need and ability to support various advocacy efforts can fluctuate depending on national and state regulatory conditions. For example, the scope, pace, and activity level of the Department of Energy's equipment and appliance test procedure and appliance standards efforts is vulnerable to variability under different presidential administrations. The Council has also observed historical fluctuations in codes and standards activity at the local and state level, which may respond to federal conditions or other external factors. There may be future scenarios where it will be most effective for a program to focus its resources on non-advocacy subprograms such as Reach Codes (supporting local activities), Code Readiness (collecting high quality data to support future advocacy efforts), and Compliance Enhancement (ensuring high compliance for adopted codes and standards) rather than advocacy programs.

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[30] Proposed Decision, at pp. 25-26.
[31] *Id*., at p. 27.

The Council therefore suggests the Proposed Decision be revised to propose eliminating the 70% threshold and instead review the appropriateness of the subprogram budget percentages during the Biennial Budget Advice Letter process, the Business Plan applications, and other budget approval processes.

The Proposed Decision notes the Commission has observed budget increases in recent years for the non-advocacy subprograms while the advocacy program budgets have remained relatively flat.[32] It appears that the Proposed Decision attempted to ensure that advocacy budgets also increased to address external conditions (e.g., increase in DOE appliance standards and test procedure activity) and expanded scope (e.g., transportation electrification and building decarbonization). If that is the intended goal, the Council suggests the Proposed Decision be revised to propose a more direct approach to invigorate advocacy program budgets instead of indirectly establishing a potentially arbitrary 70% cap, which may result in downward pressure on overall budgets and the potential unintended consequences as discussed above.

## XV. CONCLUSION

The Council asks that the Proposed Decision be modified for the reasons stated above. Those needed modifications to the Proposed Decision are included in Appendix A (Proposed Modifications to Findings of Fact, Conclusion of Law, and Ordering Paragraph) attached and incorporated by reference hereto.

Dated: March 23, 2023

Respectfully submitted,

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[32] Proposed Decision, at pp. 26-27.

<u>**APPENDIX A**</u>

**THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS FOR THE PROPOSED DECISION ADDRESSING CODES AND STANDARDS SUBPROGRAMS AND BUDGETS AND STAFF PROPOSAL ON REDUCING RATEPAYER-FUNDED INCENTIVES FOR GAS ENERGY EFFICIENCY MEASURES**

The California Efficiency + Demand Management Council (the "Council") proposes the following modifications to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs in the Proposed Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures, mailed in A.22-02-005, et al. on March 3, 2023 (Proposed Decision).

Please note the following:

- A page citation to the Proposed Decision is provided in brackets for each Finding of Fact, Conclusion of Law, or Ordering Paragraphs for which a modification is proposed.
- <u>Added language</u> is indicated by **bold type**; <u>removed language</u> is indicated by **bold strike-through**.
- A new or added Finding of Fact, Conclusion of Law, or Ordering Paragraph is labeled as "<u>**NEW**</u>" in **bold underscored** capital letters.

<u>**PROPOSED FINDINGS OF FACT**</u>**:**

5. [29] Certain electric measures may provide the same function as certain gas energy efficiency measures. The degree to which an electric measure is viable to displace a gas measure depends on its availability**, market readiness,** and on customers' net benefits from such displacement.

11. [29] Bill impacts from fuel substitution and customer decision making in response to reduced incentives for gas efficiency measures warrant further examination. **As bill impacts are a likely byproduct of achieving the state's energy and climate goals, customer bill impacts should be assessed over short, medium, and long-term horizons.**

14. [29] Non-advocacy Codes and Standards subprograms, while distinct from Codes and Standards advocacy, support certain advocacy efforts **including transportation electrification and building decarbonization**.

**<u>PROPOSED CONCLUSIONS OF LAW</u>:**

4. [30] For the purpose of determining whether to eliminate ratepayer funds for gas energy efficiency measures, it is reasonable to define cost-effective as any ~~**measure**~~ **portfolio** with a TRC benefit to cost ratio of 1.0 or higher; thus, any ~~**measure**~~ **portfolio** with a TRC benefit to cost ratio less than 1.0 is not cost-effective.

5. [30] For the purposes of the policy adopted in this decision, it is reasonable to determine cost-effectiveness for natural gas new construction measures at ~~**the eTRM permutation**~~ **measure** level.

6. [30-31] For the purpose of determining whether to eliminate ratepayer funds for gas energy efficiency measures, it is reasonable to define viable electric alternative as described in Section 2.3 of this decision, and to provide for Commission staff to convene a research and stakeholder process**, in collaboration with relevant state agencies and entities,** to develop technical guidance for implementing this definition **and addressing other necessary and relevant policy questions. The definition of a viable energy alternative is important to the policy adopted in this decision and should be vetted and debated amongst stakeholders and agencies before its definition is finalized and that the definition is finalized before any policy decisions are finalized that either uses or is impacted by the term "viable electric alternative"**.

**<u>PROPOSED ORDERING PARAGRAPHS</u>:**

8. [34-35] Beginning on January 1, 2024, **the appropriateness of** Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, and Southern California Gas Company's non-advocacy Codes and Standards subprogram budget~~s~~ **percentages must be reviewed during the Biennial Budget Advice Letter process, the Business Plan applications, and other budget approval processes.** ~~**may not exceed 70 percent of their total Codes and Standards budgets.**~~