BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Petition of the Public Advocates Office to Adopt, Amend, or Repeal a Regulation Pursuant to Pub. Util. Code § 1708.5.	Petition 24-03-013 (Filed March 18, 2024)

RESPONSE OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL TO THE PUBLIC ADVOCATES OFFICE PETITION TO OPEN A RULEMAKING PURSUANT TO PUBLIC UTILITIES CODE SECTION 1708.5

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The California Efficiency + Demand Management Council ("The Council") respectfully submits this Response to the Public Advocates Office Petition to Open a Rulemaking Pursuant to Public Utilities Code Section 1708.5 ("Petition"), filed with the California Public Utilities Commission ("Commission" or "CPUC") on March 18, 2024 and served on March 6, 2024. This Response is timely filed and served pursuant to Rule 6.3(d) of the Commission's Rules of Practice and Procedure.

I. 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 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.

[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.

II. SUMMARY

The PAO request to open a new proceeding proposes to sweep aside nearly a decade of prior Commission energy efficiency ("EE") and demand response ("DR") cost-effectiveness rulings in the name of "rate affordability" without offering any evidence that doing so is necessary or would be beneficial. The PAO claim that demand-side programs "compete" with rate affordability, electrification, and decarbonization are contradicted by the evidence. Rather, robust demand-side programs support a decarbonizing grid through improved affordability, consistent reliability, reduced emissions, and mitigated risk.

PAO's proposal to revise the Total System Benefits ("TSB") methodology to account for equity issues is wholly unnecessary because, pursuant to Decision ("D.") 23-06-055, the California Energy Efficiency Coordinating Council ("CAEECC") has recently developed a set of criteria for tracking equity progress. PAO has not been an active participant in CAEECC meetings for over one year and we strongly believe that the issues being raised under this Petition should first be discussed and considered by this body, with a recommendation to be developed by CAEECC for Commission review. The Council also suggests that the CAEECC would be a good forum in which to carefully consider how EE and DR can best support electrification and decarbonization.

III. PUBLIC ADVOCATES OFFICE'S PREMISE FOR ITS PETITION IS UNSUPPORTED

In its Petition, Public Advocates Office ("PAO") proposes a new rulemaking which, described at a high level, would "consider the advancement of energy efficiency, demand response, and ESA programs" and "would serve as a successor proceeding to prior rulemakings that have considered these demand side programs separately."[2] More specifically, the proposed rulemaking "would allow the Commission to consider the achievement of California's greenhouse gas (GHG) reduction goals alongside concerns over rate affordability, reliability, and equity outcomes for demand side programs associated with demand response, and energy efficiency, including the Energy Savings Assistance (ESA) program."[3]

The long-standing Commission policy has required Program Administrator energy efficiency ("EE") portfolios to be cost-effective at the portfolio level, but that non-resource

[2] PAO Petition, at p. 3.
[3] *Id.*, at p. 1.

programs inclusive of equity, market supports, and market transformation programs (among others) and program portfolios administered by Regional Energy Network ("RENs") Program Administrators are not required to be cost effective. These program-specific guidelines around cost-effectiveness have been specifically decided previously in multiple proceedings before the Commission and with ample rationale intended to promote multiple goals and objectives, most notably to help assure that hard-to-reach, disadvantaged, and/or underserved communities receive a greater share of ratepayer funding provided for demand-side management programs. The PAO request to open a new proceeding proposes to sweep aside nearly a decade of prior rulings in the name of "rate affordability". The implication that EE proceedings and policy development has somehow been siloed from decarbonization efforts, electrification efforts, and rate/billing affordability is simply not supported by the record.

PAO provides no evidence to support the premise that this long-standing policy should be changed which, if adopted, risks serious disruptions to demand-side programs like EE and demand response ("DR") programs that could negatively impact the goals that PAO cites, as well as customers, providers, and overall reliability. Furthermore, PAO's suggestion that the proposed rulemaking should "address the long-term stability of funding for demand-side customer programs" suggests that the current funding of them is unstable.[4] Again, such a premise has not yet been demonstrated, especially given that recovery of program costs through distribution rates is far more stable than the most obvious alternative – from the state's General Fund. For the second year in a row, the state is struggling with a historically large budget deficit which is impacting energy- and climate-related initiatives. Any notion that this funding approach for demand-side programs is more stable in the current environment is unsupported by the facts.

IV. DEMAND-SIDE PROGRAMS SUPPORT BILL AFFORDABILITY, ELECTRIFICATION, AND DECARBONIZATION

In its Petition, PAO claims that "the priorities of rate affordability and accelerating decarbonization and electrification, including through the use of demand side programs, can compete with one another" and recommends that "[t]he Commission must balance these various objectives to ensure that decarbonization and reliability goals are achieved without overly

[4] *Id.*, at p. 8.

burdening ratepayers."[5] The Council strongly disagrees with PAO's claim that demand-side programs "compete" with rate affordability, electrification, and decarbonization, a claim for which PAO provides no evidence. Rather, the value of demand-side programs grows in a decarbonizing grid through improved affordability, consistent reliability, reduced emissions, and mitigated risk.

PAO's concern about potential conflicts between demand-side programs and "rate affordability" appears to be based on the notion that higher electricity consumption will lead to lower electric rates. This is apparent in its statement that, "[t]o achieve the *volume of electrification* necessary to meet state climate goals, electric rates must remain below reasonable thresholds and ratepayer-funded programs must deliver real, quantifiable benefits."[6] All else being equal, higher electricity consumption will naturally result in lower electric rates because costs can be spread among a greater number of kilowatt hours ("kWh"). However, PAO's focus on "rate affordability" is misguided because it overlooks what truly matters to ratepayers: the overall size of their utility bills. More specifically, in a scenario in which demand-side programs are reduced in size or are eliminated outright, electricity consumption will increase; even if electric rates fall, the overall customer bill will increase because the demand-side program savings will no longer be realized. Commission-directed research shows that such an increase in overall bill size plays a far greater role in customers' decisions when considering ways to save money than the utility electric rate.

Results from this research which was performed by Opinion Dynamics indicate that:

> "[C]ontrary to what [program administrators] and implementers mentioned during their interviews, most customers do track their households' energy usage (95%) primarily by reviewing their monthly energy bill and make changes as a direct response to tracking their homes' energy usage (79%); approximately 21% of respondents reported they did not make any changes as a direct response to tracking their home's energy usage. Results were similar across utility, housing type, income, and IOU-sponsored program participation subsegments."[7]

[5] PAO Petition, at p. 8.
[6] *Id.*; emphasis added.
[7] Energy Efficiency Residential Pulse Check – Final Report, at p. 68, November 1, 2023, Prepared by Opinion Dynamics which can be found here: https://pda.energydataweb.com/#!/documents/3874/view.

Table 29 Ways Respondents Monitor Their Home Energy Usage

	Overall	Utility			Housing Type		Income Status		Program Participation	
		SDG&E (a)	PG&E (b)	SCE (c)	Single family (d)	Mobile home (e)	Moderate Income (h)	Market Rate (i)	Participant (p)	Non-participant (q)
n	924	315	309	300	833	91	316	429	238	686
Monthly energy bills	86%	83%	84%	89%[a b]	86%	86%	87%	86%	84%	87%
Online real time utility accounts	18%	27%[b c]	19%	15%	19%	13%	16%	21%[h]	28%[q]	15%
Other web-based tools provided by utility	14%	19%[c]	14%	13%	14%	15%	14%	16%	21%[q]	12%
Other management or monitoring systems	15%	19%[c]	17%[c]	9%	15%[e]	8%	11%	18%[H]	24%[Q]	11%
Other	3%	3%	4%	4%	3%	7%	4%	3%	4%	3%
Don't know	<1%	<1%	<1%	2%[a b]	<1%	2%	<1%	<1%	<1%	1%

Note: a/b/c/d/e/h/i/p/q indicates significant differences at a 90% confidence level and 0.10 alpha between the following tests: abc, de, hi, pq; A/B/C/D/E/H/I/P/Q indicates significant differences at a 90% confidence level and 0.01 alpha between the following tests: ABC, DE, HI, PQ

Note: Chi-squared tests revealed a significant relationship between this question and the listed subsegments; however, measures of effect size were not calculated

Pulse Check Survey Question: How are you tracking your home's energy usage? (Multiple responses permitted)

Because customers focus more on their overall bills rather than their electricity rates, focusing on rate affordability rather than bill affordability will lead to an inefficient outcome – greater electricity consumption and higher electric bills.

Additionally, PAO has provided no proof that demand-side program costs are a significant driver of the current rate affordability issues. In fact, PAO's own analysis indicates that wildfire mitigation and transmission & distribution investments are the top two primary statewide drivers of higher electricity costs over the past 10 years.[8]

Similarly, PAO's claims of tension between demand-side programs and electrification and decarbonization are not supported by the evidence. The American Council for an Energy Efficiency Economy's ("ACEEE's") recently published a report entitled, "Energy Efficiency in a High Renewable Energy Future," which demonstrates that energy efficiency plays a crucial role in facilitating greater renewable energy generation and decarbonization.[9] Key findings include:

[8] Q4 2023 Electric Rates Report which can be found here: https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/press-room/reports-and-analyses/240119-caladvocates-q4-2023-quarterly-rate-report.pdf.

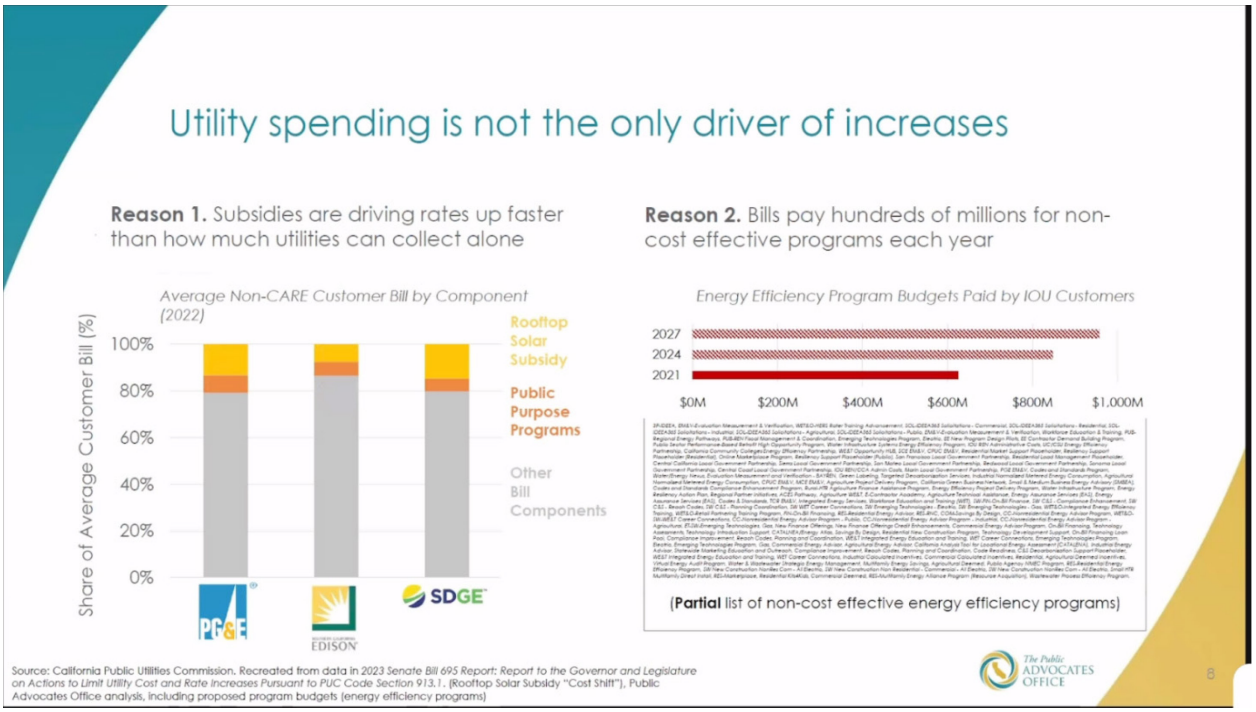
[9] Special, M., and A. Bell-Pashto. 2023. Energy Efficiency in a High Renewable Energy Future which can be found here: https://www.aceee.org/research-report/u2303.

- Energy efficiency provides more value the more quickly electricity generation decarbonizes by offsetting the escalating costs of fossil-based energy and carbon capture under high renewable energy scenarios.
- Analysis of 5 of the 20 grid regions covering the continental United States (i.e., California, Texas, the Pacific Northwest, the Southeast, and the Midwest) found that energy efficiency reduces costs that would otherwise be passed on to customers by avoiding energy, generation capacity, and transmission costs, with estimated savings of $10–19 billion annually per grid region analyzed by 2050.
- Energy efficiency can reduce the maximum annual load that must be met with nonrenewable sources (i.e., net peak load) 31–46% in 2030 and 39–86% in 2050 even in the absence of widespread electrification.
- Energy efficiency measures that affect thermal space conditioning loads (i.e., heating and cooling) are likely to have the greatest impact on both energy savings and avoided electricity system costs through 2050. Delivering these benefits to low- income customers may require overcoming additional impediments like mold and structural damage to their homes.
- After thermal space conditioning measures, the energy efficiency measure with the highest potential to reduce electric system costs through mid-century is the installation of residential heat pump water heaters.
- The electricity system benefits provided by energy efficiency grow through mid-century as old equipment wears out and more efficient equipment is installed.

Demand-side programs also provide valuable energy and capacity that is needed to support grid reliability, something that is of critical importance given the recent blackouts during the summer months. Demand-side programs are also not subject to the widespread delays associated with contracting and connecting new clean generation and storage resources to the grid that threaten electric reliability in the near term, as the state reduces reliance on fossil-fueled generation while meeting historic electricity demand.

V. DEMAND-SIDE PROGRAMS WITH A COST-EFFECTIVENESS REQUIREMENT SHOULD NOT BE CONSIDERED NEXT TO EQUITY PROGRAMS

PAO does not explicitly state this in its Petition, but it has recently cited non-cost-effective demand-side programs as a target for elimination in the March 6, 2024 presentation of Linda Serizawa, PAO Interim Director and Deputy Director of Energy to the Assembly Utilities & Electricity Oversight Hearing. Citing to the slide provided below, Interim Director and Deputy Director of Energy Serizawa stated, "In the short term, we should take out all the fat in the utility bills. *This means eliminating cost ineffective programs.* And the longer term, we need to design electrification in a way that provides downward pressure on rates. And third, we need to adapt to increasing Wildfire mitigation and Disaster Recovery costs."[10]



The Council sees this as a clear indicator of PAO's intention to eliminate any programs they believe are not cost-effective through its proposed rulemaking. PAO's focus on equity through its Petition in the context of demand-side programs also gives the Council cause for

[10] https://www.assembly.ca.gov/media/assembly-utilities-and-energy-committee-20240306, beginning at 1:03:14; emphasis added.

concern that equity programs such as the Energy Savings Assistance ("ESA") will be valued differently from EE and DR programs.

VI. EQUITY ISSUES SHOULD BE ADDRESSED THROUGH THE CALIFORNIA ENERGY EFFICIENCY COORDINATING COUNCIL "CAEECC"

PAO proposes that the current Total System Benefits ("TSB") methodology should be revised to address equity.[11] This is wholly unnecessary because the California Energy Efficiency Coordinating Council ("CAEECC") has recently developed a set of criteria for tracking equity progress.[12] Pursuant to Decision ("D.") 23-06-055, the CAEECC re-engaged the Equity Metrics Working Group ("EMWG") and Market Support Metrics Working Group ("MSMWG") to discuss and develop recommendations to clarify adopted Equity and Market Support Indicators. In November 2023, the Equity and Market Support Working Group ("EMSWG") convened to clarify the 13 Equity Indicators and 25 Market Support Indicators in the Decision, prioritizing to clarify all 13 Equity Indicators and 9 Market Support Indicators. The Working Group's recommendations for these indicators are intended to inform the Tier 2 Advice Letter Portfolio Administrators must file on these Indicators by May 1, 2024. In light of the CAEECC's success in developing the Equity and Market Support Indicators, the Council suggests that the CAEECC would also be a good forum in which to carefully consider how EE can best support electrification and decarbonization.

The Council also notes that PAO has not been an active participant in CAEECC meetings for over one year and we strongly believe that the issues being raised under this PAO Petition should first be discussed and considered by this body, with a recommendation to be developed by CAEECC for Commission review. This provides a more considered forum for analyzing and ultimately determining whether a new proceeding is actually called for. This is especially true, given the fact that the Rolling Portfolio EE policy framework is relatively new, and that the transition to a Program Administrator-administered, and mostly third-party implemented framework for EE programs has been in place for only a few years. The proposed PAO proceeding risks dismantling a framework that has not had an opportunity to be fully tested and implemented.

[11] Petition, at p. 5.
[12] https://www.caeecc.org/_files/ugd/849f65_811eb0401da74baebe65034d82232234.pdf

VII. CONCLUSION

The Council respectfully submits this Response and urges the Commission to reject the PAO Petition.

Respectfully submitted,

April 5, 2024

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