CALIFORNIA

Efficiency + Demand Management

COUNCIL

*Advancing Our Clean Economy*

# EE + DR/DER Call

## March 4, 2025

REC

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# Today's Agenda

CALIFORNIA Efficiency + Demand Management COUNCIL

- Oversight Hearings and Related Documents
- CPUC response to Executive Order N-5-24
- Leapfrog Power editorial
- CAISO Demand & DEM Integration WG update



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# Oversight Hearings and Related Documents

- Cal Advocates Testimony at Utilities Energy Oversight Hearing 31 min. 2025-02-19 *
- Summary & Analysis of PAO Testimony at Senate Utilities & Energy Oversight Hearing 2025-02-19.docx*
- Presentation by Public Advocates Office Testimony at Senate Utilities & Energy Oversight Hearing*
- Transcript of PAO Testimony at Senate Utilities and Energy & Oversight Hearing 2025-02-19.docx
- 7 Presenters and Public Comment - U E Oversight Hearing time 1.24 hr 2025-02-19 *
- Transcript of Carla Peterman-PG&E Remarks at Senate U E Oversight Hearing 2025-02-19.docx*
- Cal Advocates Testimony at Utilities Energy Oversight Hearing 31 min. 2025-02-19 *
- Little Hoover Commission Severin Borenstein 2025-02-27 (Pending analysis)
- Senate Energy Oversight Hearing Part 1 2025-02-20 (CPUC - pending analysis)
- Little Hoover Commission Matt Freedman - TURN 2025-02-27 (Pending Analysis)
- CalSSA presser Rooftop Solar Reduces Costs for All Ratepayers v2 2025-02-26 (Requested from Author)



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# Presentation by Public Advocates Office Testimony at Senate Utilities & Energy Oversight Hearing

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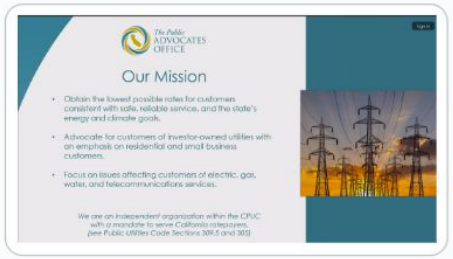

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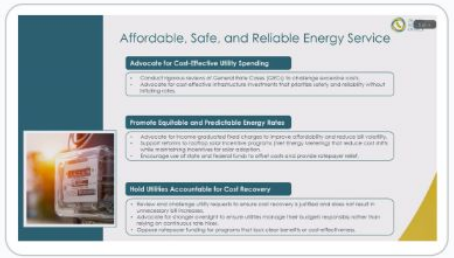

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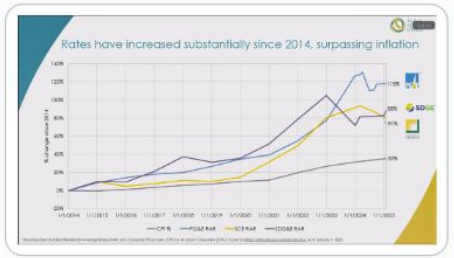

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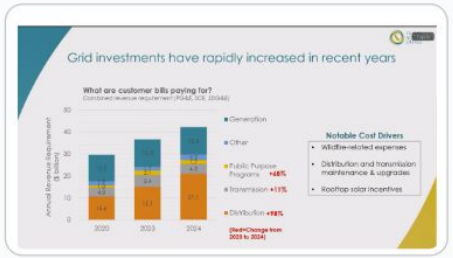

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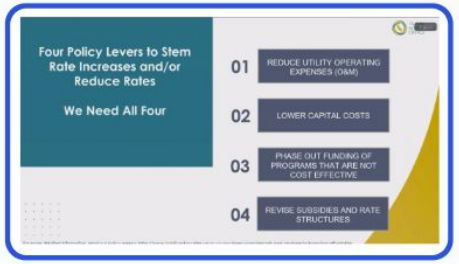

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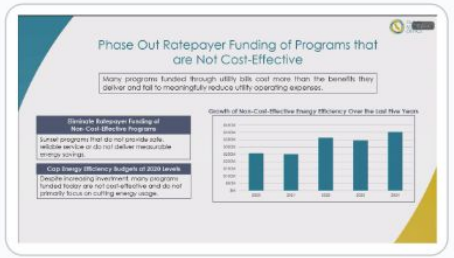

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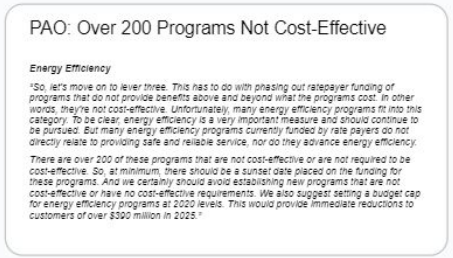

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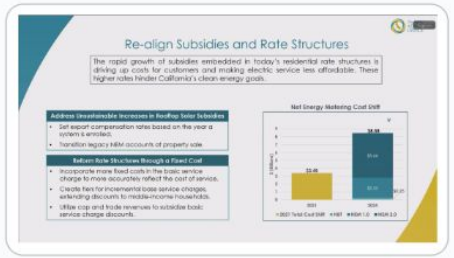

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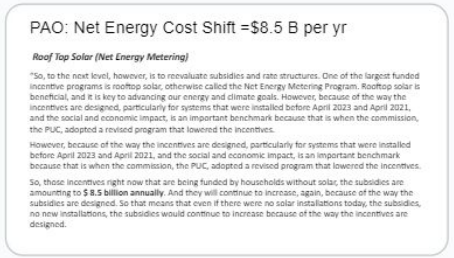

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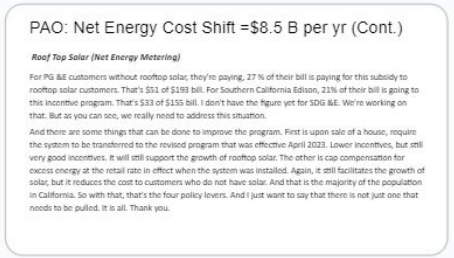

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**Transcript: Carla Peterman, Executive Vice President of Corporate Affairs and Chief Sustainability Officer at PG&E -**

Thank you, Chair Becker, and thank you, members of the Committee. I appreciate the opportunity to come talk to you about rates because there is a lot of misinformation about rates. And so, I hope I can help clarify a few things and I'm looking forward to our conversation.

At PG&E we are committed to stabilizing customer bills and achieving our state's climate and safety goals. PG&E has significantly improved safety for our customers. However, we know that the past few years of rate increases have been challenging. Electric rates are expected to be more stable in 2025 compared to 2024.

This year, PG&E's residential electric bills are five percent lower today compared to January 2024. That's right. They are lower today compared to this time last year.

And last year, our electric customers did experience six rate changes. It was not six rate increases. It was six changes. Some of these were increases. Some of these were decreases. And some of these were years-old requests for cost recovery for spend we did on behalf of customers for safety. In all of these cases, we did not receive our full ask, including we never received full recovery for spend we did in good faith on wildfire pursuant to state direction. That being said, six rate changes is not the customer experience that we want. We would like to get it down to two rate changes a year. But to do that - to reduce the number of changes - we need to have timely PUC decisions consistent with your statutory requirements. And that is simply not the current case.

Now let me briefly explain to you some of the actions we've taken to stabilize bills over the last year. First, we looked inside. We worked on addressing our own operating and capital costs. These savings allowed us to do more work without increasing bills. We also worked to reduce our financing costs. We worked really hard to apply for first-of-its-kind Department of Energy grants and loans. In January, DOE awarded us a low-interest,$15 billion dollar loan guarantee for PG&E's grid modernization work, which could save customers up to 1 billion, net present value, over the life of the financing.

**Furthermore, in 2024, we took additional, voluntary actions to reduce bills by nearly $800 million this year that otherwise might have been. This included returning $500 million to electric customers for programs in which we spent less than the CPUC approved, while maintaining the program's goals and activities. We also sold excess renewable energy credits and other greenhouse gas -free attributes that we don't need to meet our compliance obligations.**

**So, what more can be done? To best address affordability, it is useful to focus on costs not directly tied to providing energy. These are costs with programs that may be good, but some of these costs should be going down or perhaps should be funded off the bill. That's about 30 percent of our bill that we're talking about.**

First, let me talk about wildfire mitigation costs. Some of these costs can be lower or financed differently. And first, Senator McNerney, I appreciate your concern around customers paying for deferred maintenance. I will tell you that PG &E shareholders have paid billions of dollars for maintenance and issues that arose out of past fires. Shareholders paid through this, through disallowances, through fines, and ultimately through bankruptcy. The cost drivers on wildfire you're seeing in the bill now are what it costs to maintain the level of risk reduction our customers and our legislature currently expect.

The biggest cost driver on wildfire is tree trimming. That's 10 percent of the bill. $1.8 billion we spend year over year. And this has broader societal benefits. This could be an area where we could really have state funding. You compare that 10 percent to what we spend on undergrounding, which is 0.5 percent. And it provides permanent risk reduction. On undergrounding, this legislature three years ago passed SB 884, which would have allowed us to file a 10-year plan and get economies of scale to do undergrounding more cheaply. We are still awaiting final rules from our regulator to submit that plan. Meanwhile, we have taken action to reduce the cost of wildfire. But we continue to see additional pressure to spend more. Just for example, multiple state agencies - Board of Foresty, the Water Board, Cal Trans - are making a request that will increase wildfire spend. We need to rationalize this.

**A second area to focus on reducing expense, or transferring off the bill, are our public purpose programs. Again, these provide broad societal benefits, but can be funded in other means.**

Third, let's eliminate costly technology procurement carve-outs, such as the REMAT program, the Biomat, and BioRAM. These programs have run their course.

Fourth, consolidate RPS and procurement oversight under the integrated resources program.

Fifth, more broadly, as we're trying to get to our decarbonization goals in 2045, let's allow load-serving entities to really focus on the least cost best fit to reach those carbon goals in 2045 and have appropriate milestones. This will reduce some of the interim costs while keeping us on track for the state's goal.



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Six, update the net-energy metering consistent with the CPUC's recommendations. As of December 2024, the estimated annual NEM cost shift for PG &E customers is $3.8 billion. This is approximately 18 % of a PG &E rate. That's $384 that customers who do not have solar are paying extra on their PG &E bill for this subsidy. And the cost continues to grow. That was 15 % a year ago. Now we're at 18%.

And then finally, number 7, update the California Climate Credit to be aligned with high usage months, and to better distribute those costs to those customers who bear the greenhouse gas compliance cost.

Now Chair, if I may, can I take one minute to respond to some questions around earnings?

(Chair) Go ahead. Sure. One minute.

You can time me on this one. So, first, I really want to dispel the myth that is, utility earnings that has been driving up the bill. We've heard again, we heard that from Cal PA, that it is really this wildfire spend. We've not seen earnings be a higher proportion of the bill. These earnings are going up year over year, and that's because we are making more investments. California's economy is growing, demand is growing, demand for more infrastructure, demand for interconnections. We're hearing that from our customers, and we're hearing that from you. We need to go out to investors to borrow money, debt, and equity, in order to finance this infrastructure. We're having an in -relation return increase related to that infrastructure investment. And who are our investors? Our investors are the firemen, the teachers, it's CalSTRS, it's CalPERS, it's your pension, and you're expecting a reasonable return. They are not rocket profits. The last point I'll make is, I'll make two more points. We're actually not earning our authorized rate of return. That's come up a few times. PG &E has consistently under - earned that. And the last point is that our investors are not profit maximizing. We made $2.47 billion in earnings last year. Only $86 million actually went back to investors. The dividend was less than 3 .5%. The remainder of that, we reinvested back in the business to do work on behalf of customers. You have a good story to tell about how investors are supporting customers in this state, and I'd like to help you tell it.





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# CPUC response to Executive Order N-5-24

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- On 2/18, the CPUC issued its Response to Executive Order N-5-24 which was signed by Governor Newsom on 10/30/24 addressing the state's energy affordability crisis. The EO:
  - Requests CPUC identify underperforming programs and return any unused energy program funds to customers receiving electric and gas service from IOUs
  - Requests CPUC evaluate whether its rules and orders may be unduly adding to electric rates or whose funding might more appropriately come from a source other than ratepayers
  - Requests CPUC pursue, and direct IOUs to pursue, all federal funding opportunities that can help reduce electric rates
  - Directs CEC to identify underperforming programs and whether any unused funds can be returned to ratepayers
  - Directs CARB to work with the CPUC to determine ways to maximize the California Climate Credit
  - Directs Office of Energy Infrastructure Safety and requests CPUC evaluate utility wildfire safety oversight practices and ensure that utility investments and activities are focused on cost-effective wildfire mitigation measures



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# CPUC response to Executive Order N-5-24 (cont.)

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- Key strategies that address costs to save ratepayers money
  - **All energy-related mandates should be assessed for overall cost-effectiveness with the goal of achieving the lowest possible rates for all customers of each utility**
  - Supplement essential wildfire mitigation programs and extreme weather-related catastrophic event response costs with other sources of funding
  - Identify cost-reduction measures by integrating wildfire mitigation strategies into the existing General Rate Case process
  - **Equitable rate structures: Refine the elements of Net Energy Metering so that all customers share wildfire mitigation, public purpose programs and system costs**
  - **Redistribute the Climate Credit to customers most impacted by increasing electricity costs**
  - **Fund today's and future cost-shifting programs from non-ratepayer sources**
  - **Ensure that programs benefitting all electric customers are supported by all customers, including customers of publicly-owned utilities**



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# CPUC response to Executive Order N-5-24 (cont.)

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- Key statements and assertions
  - "Likewise, the grid is built to efficiently share electricity generation but must also be sized to meet the highest potential demand. Accordingly, **using less energy does not always result in cost savings**. While guaranteed load reduction measures are increasingly valuable at times of high usage, **at other times, more load can mean lower rates**."
  - "Broadly, **ratepayer bills are rising because of**: wildfire risk reduction surrounding utility infrastructure, **inequitable rate structures, programs that require energy procurement that is not needed or is not competitively priced**, and **programs that provide bill reductions or discounts to one group of ratepayers**, thus leaving other customers with a larger share of overall costs."
  - "The Legislature can also **take statutory action to repeal or significantly revise mandated electricity programs that result in ratepayer costs that are higher than necessary** for safe, reliable, clean electricity."
  - "Under the current cost allocation structure, **some advantaged customers pay less than their share of operational and capital costs while disadvantaged customers pay more than their share of both**, especially because more advantaged customers have benefitted from the NEM subsidies paid by all other customers."
  - "Because most operational and capital costs are fixed in advance and allocated on an annual basis, **any program that provides rate relief for one customer group results in a shift of operational and fixed costs to another**. The second group gets a rate increase, while the first group gets a rate or bill decrease."
  - "**Net Energy Metering (NEM) program costs are one of the largest contributors to rising electricity rates for customers that do not have rooftop solar.** According to the Public Advocates Office, the NEM program's and the Net Billing Tariff's (NBT) combined $8.5 billion cost shift constitutes 21-27% of the average non-participating customer's bill."
  - "**Cost effectiveness is a heavily contested concept.** Two approaches have the most direct relevance to rates: the Ratepayer Impact Measure, which identifies the extent to which savings for one customer shifts costs to another, and the Total Resource Cost test, which measures financial costs and benefits to all ratepayers and the utility."



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# CPUC response to Executive Order N-5-24 (cont.)

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- Detailed response summary
  - Program review
    - Fund the NEM and NBT cost shift from non-ratepayer sources
    - Reduce the NEM and NBT cost shift
      - Shorten legacy periods
      - Tie compensation for excess generation from PV systems to rates in effect when NEM customers interconnected
      - Establish a grid benefits charge for NEM and NBT customers
      - Tying legacy periods to the customer, not the system
    - Use stable non-ratepayer funds to increase the CARE and FERA discount
    - Fund other programs from a non-ratepayer source
    - Fund any future cost-shifting programs from non-ratepayer sources
    - Use existing review process of utility spending
    - In a program benefits all electric customers, all electric customers should contribute
    - Prioritize the needs of ratepayers



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# CPUC response to Executive Order N-5-24 (cont.)

- Detailed response summary (cont.)
  - Actions to be taken under CPUC authority
    - Open an energy efficiency rulemaking
    - Move toward incorporating a greater share of costs into General Rate Cases for holistic review and decision making
    - Evaluate new programs for cost-effectiveness
    - Improve risk-informed spending
    - Consider re-prioritizing transportation electrification spending by focusing on critical grid investment and pausing $1 billion in new ratepayer charges
    - Approve lower-cost wildfire risk mitigation methods where appropriate
    - Identify programs meeting the following criteria:
      - Programs that require ratepayers to purchase energy from specific generation types that are not competitive with alternative RPS-eligible resources (may require legislative action)
      - Return unused program funds to ratepayers
    - Continually improve the efficiency of the CPUC's administrative process



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# CPUC response to Executive Order N-5-24 (cont.)

- Detailed response summary (cont.)
  - Ways to improve the effectiveness of the California Climate Credit
    - Allocate the Climate Credit to all customers who receive the CARE benefit and to customers without rooftop solar who are paying for those who have it
    - Pay the Climate Credit as a volumetric electricity rate reduction
  - Ways to reduce wildfire mitigation costs
    - Fund these investments from non-ratepayer sources
    - Improve transparency and coordination of cost approval processes, undergrounding, and fuel treatment efforts
    - Amend the PUC to require utilities to integrate wildfire mitigation costs into the GRC instead of a stand-alone activity to allow greater oversight of costs
  - Pursuing Federal funding opportunities
    - Resolution E-5254 approved to support IOU efforts to pursue Federal funding opportunities
    - IOUs have received multiple letters from President Reynolds directing them to pursue all available funding opportunities



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# Leapfrog Power editorial in Utility Dive

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- On 2/24, Utility Dive published an editorial by Collin Smith of Leapfrog Power (Leap) entitled, “Are utility demand response program costs outstripping their benefits in California?
- In it, Leap highlighted how the recent CPUC trend of steering retail demand response (DR) participants into IOU, rather than third-party, DR programs, actually increases, rather than reduces DR program costs.
- Leap cited the CPUC’s rejection of third-party DR participant eligibility for Automated Demand Response (AutoDR) and Self-Generation Incentive Program (SGIP) incentives on the basis that third-party DR programs must be shown to provide cost-effective benefits to ratepayers.
- Though they agree with this standard, Leap argued that as competitively-procured resources, they are subject to market forces which place downward pressure on costs, including administrative costs.
- In contrast, PG&E’s Capacity Bidding Program has a 9% admin. budget and its Automated Response Technology program has a 12% admin. budget.
- For more in-depth reading, Leap has also posted a whitepaper on its website entitled, “The Road to Seven Gigawatts: Concrete Steps to Unlock California’s Demand Response Potential.”



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# CAISO Demand & DEM Integration WG update

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- On 2/5, the CAISO convened its kickoff session of the Demand & Distributed Energy Market Integration (DDEMI) working group (link to all docs & presentations)

- Overview of the working group
  - **Purpose:** Promote shared understanding of current DR/DER market participation options (including those identified in the 2024 Policy Roadmap) and discuss potential new enhancements for integrated supply-side and demand-side participation in the CAISO market
  - Scoping will occur Q1-Q3 2025 with policy development in Q4 in the form of stakeholder initiatives
  - To support this effort, the CAISO to provide resources to ensure that all stakeholders have a common understanding of DR/DER options in the market

- Initial principles
  - **Efficiency:** Market co-optimization processes utilization of DR/DER produces least cost market results while meeting reliability needs
  - **Competition:** Market rules expand competition to the benefit of consumers and allow flexible demand and smaller scale resources to participate in a similar manner as conventional, large scale generators
  - **Feasibility:** Operationally feasible and feasible to implement
  - **Simplicity:** Market design elements are not overly complicated
  - **Reliability/Compliance:** Reliability and compliance standards are reflected in market design
  - **Jurisdictional Roles & Responsibilities:** Market design should facilitate state public policies, to the extent practicable



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# CAISO Demand & DEM Integration WG update (cont.)

- Comments submitted by 20 stakeholders on 2/21, incl. APS, PGE, CDWR, CPUC, NCPA, and PacifiCorp

- A few interesting areas of interest:
  - Western Energy Imbalance Market (WEIM) entities want simpler processes for them to account for their DR in the Resource Sufficiency Evaluation
  - A broad range of California entities want some form of device-level measurement and counting BTM energy storage exports (esp. Modified Proxy Demand Resource)
  - Broad support for moving PEMs out of the tariff and into Business Practice Manuals
  - Several complaints about ShareMyData and CISR-DRP process (Electric Rule 24/32)

- The Council, Leapfrog Power, and Renew Home submitted joint comments to the CAISO on its 2/5 Demand & Distributed Energy Market Integration Working Group
  - Support CAISO's proposed principles and recommend adding another called Utilization that prioritizes expanding available capacity in the CAISO market
  - Propose to include Device-Level Measurement within the WG scope
  - Express support for DR Alternative Baselines and highlighted the potential benefits of a prescriptive baseline similar to what has been utilized by Demand Side Grid Support Option 3
  - Support stakeholders presenting to further broader WG education but do not want to lose momentum toward achieving concrete results



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# CAISO Demand & DEM Integration WG update (cont.)

- The next WG session was held on 3/3
- CAISO provided an overview of its first discussion paper iteration
  - Intended to capture scoping discussions; will be updated to reflect stakeholder discussions
- Reviewed existing DR market participation models, metering & telemetry, and Performance Evaluation Methodologies (PEM)
- Stakeholder presentations
  - PG&E: Proposal to Revise DR Control Group Settlement Methodology
  - Nostromo: Creating the Right PEM for a Thermal Energy Storage System
  - Leapfrog Power: Prescriptive Baselines in CAISO
- Observations
  - CAISO appears open to refreshing existing products and/or creating new products for economic and reliability DR, incl. for WEIM/EDAM, and new PEMs
  - Need to start developing problem statements
- Next steps
  - Identify additional areas that would benefit from more information
  - Comments on discussion paper due 3/28
  - Next WG sessions are 3/19, 4/7, and 4/29



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# Discussion and Questions

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## Thank You!

Please contact us if you have any questions.

Joe Desmond – jdesmond@cedmc.org
Luke Tougas – l.tougas@cleanenergyregresearch.com
Kira Kimick – kkimick@cedmc.org

www.cedmc.org



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