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Efficiency + Demand Management

COUNCIL

Advancing Our Clean Economy

EE + DR/DER Call

April 1, 2025

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Today's Agenda

- State Auditor report of energy efficiency programs
- Update on discussions to replace TRC test w/ PAC test for DER program budgets of D.19-05-019
- Comments on Mar. 3 CAISO DDEMI working group
- PfM of D.22-12-009 & Council response
- Energy Division letter to CEC re: DSGS program Option 4

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CA Auditor General Report on EE (Report 2023-127)

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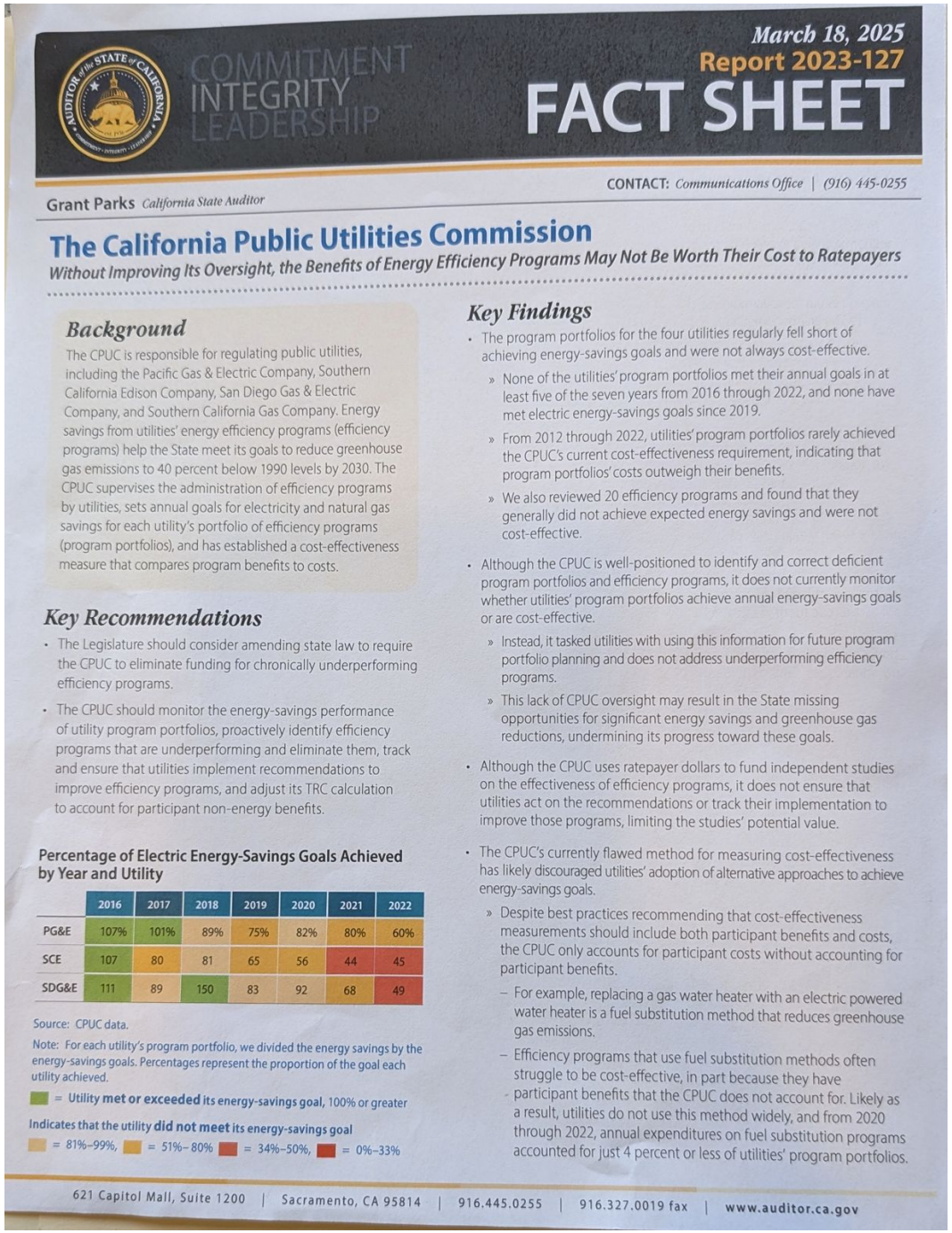

COMMITMENT INTEGRITY LEADERSHIP

March 18, 2025
Report 2023-127

FACT SHEET

CONTACT: Communications Office | (916) 445-0255

Grant Parks California State Auditor

The California Public Utilities Commission

Without Improving Its Oversight, the Benefits of Energy Efficiency Programs May Not Be Worth Their Cost to Ratepayers

Background

The CPUC is responsible for regulating public utilities, including the Pacific Gas & Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company. Energy savings from utilities' energy efficiency programs (efficiency programs) help the State meet its goals to reduce greenhouse gas emissions to 40 percent below 1990 levels by 2030. The CPUC supervises the administration of efficiency programs by utilities, sets annual goals for electricity and natural gas savings for each utility's portfolio of efficiency programs (program portfolios), and has established a cost-effectiveness measure that compares program benefits to costs.

Key Recommendations

- The Legislature should consider amending state law to require the CPUC to eliminate funding for chronically underperforming efficiency programs.
- The CPUC should monitor the energy-savings performance of utility program portfolios, proactively identify efficiency programs that are underperforming and eliminate them, track and ensure that utilities implement recommendations to improve efficiency programs, and adjust its TRC calculation to account for participant non-energy benefits.

Key Findings

- The program portfolios for the four utilities regularly fell short of achieving energy-savings goals and were not always cost-effective.
  - » None of the utilities' program portfolios met their annual goals in at least five of the seven years from 2016 through 2022, and none have met electric energy-savings goals since 2019.
  - » From 2012 through 2022, utilities' program portfolios rarely achieved the CPUC's current cost-effectiveness requirement, indicating that program portfolios' costs outweigh their benefits.
  - » We also reviewed 20 efficiency programs and found that they generally did not achieve expected energy savings and were not cost-effective.
- Although the CPUC is well-positioned to identify and correct deficient program portfolios and efficiency programs, it does not currently monitor whether utilities' program portfolios achieve annual energy-savings goals or are cost-effective.
  - » Instead, it tasked utilities with using this information for future program portfolio planning and does not address underperforming efficiency programs.
  - » This lack of CPUC oversight may result in the State missing opportunities for significant energy savings and greenhouse gas reductions, undermining its progress toward these goals.
- Although the CPUC uses ratepayer dollars to fund independent studies on the effectiveness of efficiency programs, it does not ensure that utilities act on the recommendations or track their implementation to improve those programs, limiting the studies' potential value.
- The CPUC's currently flawed method for measuring cost-effectiveness has likely discouraged utilities' adoption of alternative approaches to achieve energy-savings goals.
  - » Despite best practices recommending that cost-effectiveness measurements should include both participant benefits and costs, the CPUC only accounts for participant costs without accounting for participant benefits.
    - For example, replacing a gas water heater with an electric powered water heater is a fuel substitution method that reduces greenhouse gas emissions.
    - Efficiency programs that use fuel substitution methods often struggle to be cost-effective, in part because they have participant benefits that the CPUC does not account for. Likely as a result, utilities do not use this method widely, and from 2020 through 2022, annual expenditures on fuel substitution programs accounted for just 4 percent or less of utilities' program portfolios.

Percentage of Electric Energy-Savings Goals Achieved by Year and Utility

	2016	2017	2018	2019	2020	2021	2022
PG&E	107%	101%	89%	75%	82%	80%	60%
SCE	107	80	81	65	56	44	45
SDG&E	111	89	150	83	92	68	49

Source: CPUC data.

Note: For each utility's program portfolio, we divided the energy savings by the energy-savings goals. Percentages represent the proportion of the goal each utility achieved.

= Utility **met or exceeded** its energy-savings goal, 100% or greater

Indicates that the utility **did not meet** its energy-savings goal

= 81%–99%, = 51%–80% = 34%–50%, = 0%–33%

621 Capitol Mall, Suite 1200 | Sacramento, CA 95814 | 916.445.0255 | 916.327.0019 fax | www.auditor.ca.gov

MONEY POORLY SPENT: California utilities' energy efficiency programs are rarely cost-effective for ratepayers, according to a state audit out today.

The report also found that none of the major investor-owned utilities' efficiency program portfolios have met their energy-savings goals since 2019.

That's partly because the utilities (Pacific Gas & Electric, Southern California Edison, San Diego Gas & Electric and Southern California Gas Co.) are beginning to exhaust more straightforward energy-saving approaches, and partly because state standards are getting stronger. (Though the report also notes that the CPUC's metrics miss some of the programs' benefits.)

The report will likely serve as fodder for affordability-minded lawmakers like Assemblymember **Cottie Petrie-Norris**, who proposed a one-time $30 bill credit last year on the back of cuts to state programs for school HVAC systems and solar systems and said this year that she wants to target underperforming programs. — ***BB***

Outline of Response to CA Auditor General Report on EE

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The State Auditor's report underscores the value of energy efficiency and its importance in achieving California's public policy goals. Notably, the report highlights that not all the benefits of energy efficiency have historically been considered, and that the CPUC has not adequately performed its oversight functions to ensure that energy efficiency programs are being held to the highest standards.

- The report repeatedly acknowledges the benefits of energy efficiency for California.
- The findings suggest that with better oversight and a full evaluation of benefits, efficiency programs will deliver even greater benefits for Californians.
- The audit makes clear that the CPUC needs to take more accountability to ensure that the benefits of energy efficiency programs are fully maximized.
- The audit also makes clear that the current method to calculating cost-effectiveness does not make sense and has caused under-investment in EE and misallocation of program spend.
- We agree with the core recommendations, in particular that:
  - The cost-effectiveness test be revised to reflect all the benefits of energy efficiency (including participant benefits), ensuring a fair evaluation of programs.
  - The PUC should promptly implement recommendations from independent program evaluations and EM&V best practices.
- At the end of the day, the report is best understood as a critique of cost tests such as the Total Resource Cost test (TRC) - a position long supported by CEDMC and one consistent with California's move toward a TSB approach for evaluating efficiency.

Outline of Response to CA Auditor General Report (Cont.)

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Supporting Quotes:

- *"The CPUC's currently flawed method for measuring cost-effectiveness has likely discouraged utilities' adoption of alternative approaches to achieve energy-savings goals."*
- *"Despite best practices recommending that cost-effectiveness measurements should include both participant benefits and costs, the CPUC only accounts for participant costs without accounting for participant benefits."*
- *"The approach the CPUC takes to measure cost-effectiveness…discourage(s) utilities from implementing certain efficiency programs… We found that the TRC calculation does not include certain non-energy benefits realized by the participants of efficiency programs."*
- *"Efficiency programs that use fuel substitution methods often struggle to be cost-effective, in part because they have participant benefits that the CPUC does not account for."*
- *"Energy savings from utilities' energy efficiency programs (efficiency programs) help the State meet its goals to reduce greenhouse gas emissions to 40 percent below 1990 levels by 2030."*

Outline of Response to CA Auditor General Report (Cont.)

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Secondary argument(s):

The report covers only 20 programs out of hundreds statewide and this runs the risk of misrepresenting overall performance. As the report acknowledges, the CPUC focuses on portfolio-level performance. Not every single program needs to individually achieve high cost-effectiveness under California law. What matters is the overall impact and value provided by the full range of programs, not just isolated performance. And there's a good reason for this: certain programs, like those assisting low-income families, can be more expensive but deliver critical societal benefits that go beyond energy savings alone.

The California Energy Data and Reporting System (CEDARS) shows conclusively that the overall energy efficiency portfolio is cost-effective (even under the TRC metric criticized by the State Auditor's report) - and it's confusing that this reality isn't reflected in the Auditor General's report.

Even with one eye closed, the numbers still clearly show energy efficiency works. We agree with the report that what we need to do now is tell the full story, eyes wide open, capturing all the benefits that matter most to California families. Bottom line: energy efficiency delivers real savings for California—even though we've been measuring it with one eye closed. We're not even telling the whole story yet, and efficiency still comes out ahead.

We've only been telling half the story of energy efficiency—but even that half shows clear savings for Californians. Now picture the power of the full story. Because as the report correctly notes, we aren't counting benefits of energy efficiency such as cleaner air, healthier families, and more comfortable homes.. Add these in, and energy efficiency isn't just valuable; it's indispensable.

Update on discussions to replace TRC test w/ PAC test for DER program budgets of D.19-05-019

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Comments on Mar. 3 CAISO DDEMI working group

- On 3/28, the Council & Leapfrog Power submitted joint comments on the 3/3 CAISO DDEMI working group (WG)
- Working group summary
  - Reviewed existing DR market participation models, metering & telemetry, and Performance Evaluation Methodologies (PEM)
  - PG&E: Proposal to Revise DR Control Group Settlement Methodology
  - Nostromo: Creating the Right PEM for a Thermal Energy Storage (TES) System
  - Leapfrog Power: Prescriptive Baselines in CAISO
- Summary of Council/Leap comments
  - Supported the CAISO's proposed WG process to first define high-level principles for DR/DER model design, culminating in action items to develop policy enhancements; recommended CAISO seek opportunities to address multiple problem areas with a single initiative (continued)

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Comments on Mar. 3 CAISO DDEMI working group (cont.)

- Summary of Council/Leap comments (cont.)
  - Some proposals should be fast-tracked based on stakeholder priority and ease of implementation (e.g., moving PEMs from the tariff to Business Practice Manuals (BPMs))
  - Support Discussion Paper role of documenting WG discussions and vetted problem statements; should also keep adding links to key resources in the Appendix
  - Support proposed problem statements and discussion topics, with minor modifications, incl. TES PEMs
  - In response to stakeholder presentations:
    - Stressed importance of a TES PEM but recommended it encompass both “hot” and “cold” TES
    - Generally supported PG&E’s proposals but stressed that they would not necessarily benefit third-party providers - control group load profiles are needed for both IOUs and DRPs
    - Support Leap’s proposal and suggested it could also address PG&E’s problem
  - Expressed a willingness to present on the Modified Proxy Demand Resource and Device-Level Measurement proposals
- Next steps: Next WG call is April 7; all WG materials can be found here

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PfM of D.22-12-009 & Council response

- On 2/21, Clean Energy Alliance, San Diego Community Power, and Mission:data Coalition filed a Petition for Modification of D.22-12-009 (PfM)
  - Requested CPUC modify D.22-12-009 to require SDG&E to continue providing its distribution customers with real-time (or near real-time) energy usage data until WiFi-based smart meters are deployed
  - D.22-12-009 authorized SDG&E to cease providing support to the Zigbee technology for customers with Home Area Network (HAN) devices, based on SDG&E presumption the CPUC would approve its Smart Meter 2.0 request in its GRC; however, the CPUC denied this request in D.24-12-017 and directed SDG&E to file a separate application which will take several more years to implement
  - Also, SDG&E had stated in A.22-05-004 that “devices that are connected via ZigBee will still remain connected until the customers' future new meters are replaced with a new meter not carrying ZigBee”, but D.22-12-009 did not specify this as a requirement
  - CPUC’s silence on this conditionality does not abrogate the prior CPUC decisions directing the IOUs to provide this service

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PfM of D.22-12-009 & Council response (cont.)

- On 3/21, the Council submitted a response to the PfM
  - Petitioners have demonstrated that past CPUC decisions requiring customer access to their real-time meter data remain in effect
  - Allowing a gap in service would be contrary to Load Management Standards and CalFUSE, and require explicit approval by the CPUC which has not occurred
  - More generally, real-time usage data is important for DER providers to enable greater load flexibility, and verify performance of providers' portfolios
- SDG&E response
  - No new facts or changed circumstances exist that warrant the modification of D.22-12-009
  - SDG&E has been unable to find a third-party vendor who continues to offer ZigBee pairing or support
  - SDG&E provides an API for near real-time usage data and neither SDCP nor CEA have complained to them
  - Any modifications should include language explicitly authorizing SDG&E the ability to recover the full costs to reinstate ZigBee pairing and support from both a technological perspective as well as an administrative one
- The petitioners filed a motion to respond

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Energy Division letter to CEC re: DSGS program Option 4

- On 3/17, the Energy Division submitted a letter to the CEC, asking for a delay in the vote on the latest round of revisions to the Demand Side Grid Support (DSGS) program
  - Energy Division cited overlap between the proposed DSGS Incentive Option 4 (Emergency Load Flexibility Power Plant Pilot) and PG&E's recently-approved Automated Response Technology (ART) program b/c it targets the same market segments and devices, and cites ART providers' capacity contracts
  - Requests CEC to explore the impact of, and solutions for, any possible duplication of programs
  - CEC subsequently pulled the vote on DSGS program revisions from the 3/17 agenda
- Several parties submitted comments on the Energy Division letter
  - Renew Home
    - DSGS Option 4 has a limited no. of 2-hour events, whereas PG&E's ART Program has unlimited 6 hour events
    - DSGS Option 4 is an emergency program, whereas ART is an economic program best suited for multiple technologies
    - The DSGS Option 4 program is statewide but the ART program only covers PG&E's customers

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Energy Division letter to CEC re: DSGS program Option 4 (cont.)

- Several parties submitted comments on the Energy Division letter (cont.)
  - PCE stressed the need for customer choice and an "all hands on deck" approach to maximize load flexibility and DR potential
  - VGIC
    - EV customers require a wide range of DR programs that align with their specific needs and internal cost-benefit calculations
    - The ART and DSGS Option 4 are very different programs with different customers and aggregators participating
    - The ART is only offered by PG&E whereas DSGS Option 4 is statewide
  - CalSSA
    - DSGS providers and participants need certainty about program rules
    - The last-minute delay in program approval is unwarranted and concerning
    - Delaying all of the DSGS revisions is problematic and unnecessary
  - Generac
    - This delay will make it more difficult for Generac to launch new DSGS programs in time for summer 2025
    - PG&E never expressed concerns about a potential overlap with its ART program
    - Generac is participating in both the ART and DSGS programs
    - The ART and DSGS programs serve different purposes and provide different grid services
    - Listed several differences in the two programs
    - The DSGS is strongly supported by the state legislature

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Energy Division letter to CEC re: DSGS program Option 4 (cont.)

- Several parties submitted comments on the Energy Division letter (cint.)
  - Leapfrog Power
    - ART and DSGS Option 4 are functionally different programs and should not be viewed as conflicting
    - Concerns about DSGS Option 4 pulling customers out of RA programs can be addressed within the design of Option 4
    - Deliberation on Option 4 should not delay the approval of DSGS Options 1 through 3
- Next steps: The Council will file comments this week; the DSGS revisions are now on the 4/10 Business Meeting agenda

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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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