BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking for Oversight of Energy Efficiency Portfolios, Policies, Programs, and Evaluation.	Rulemaking 25-04-010 (Filed April 24, 2025)

OPENING COMMENTS OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON THE ORDER INSTITUTING RULEMAKING FOR OVERSIGHT OF ENERGY EFFICIENCY PORTFOLIOS, POLICIES, PROGRAMS, AND EVALUATION

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I. INTRODUCTION

The California Efficiency + Demand Management Council (the "Council") submits these Opening Comments on the Order Instituting Rulemaking for Oversight of Energy Efficiency Portfolios, Policies, Programs, and Evaluation ("OIR"), pursuant to Rule 6.2 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission") and the instructions accompanying the OIR issued April 29, 2025.

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 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.

The Council was a party to and actively participated in the previous energy efficiency (EE) rulemakings (R.13-11-005 and A.22-02-005, et al.). The Council has been or is a party to other Commission proceedings, including, but not limited to, the resource adequacy (RA)

[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.

rulemakings (R.21-10-002 and R.23-10-011), the Customer DER rulemaking (R.22-11-013), and the DR proceedings (R.13-09-011 and A.22-05-002, et al.).

III. SUMMARY

The Council supports the opening of this new OIR to evaluate and appropriately develop models for energy efficiency that can be adopted across the country, recognizing that California is the leader in clean energy development and often sets the standard for the rest of the nation. The Council supports the inclusion of the issues identified in the OIR, particularly the evaluation of cost-effectiveness, as discussed in more detail below.[2] In addition, the Council recommends that the following issues be included in the scope of the proceeding: (1) expanding integration of demand side management and enablement of load flexibility, and (2) evaluation of non-energy benefits.

IV. THE COUNCIL'S COMMENTS ON PRELIMINARY SCOPE OF R.25-04-010

1. Cost-Effectiveness Test Revision: Reviewing and Adjusting the Current Total Resource Cost ("TRC") Test Approach to Valuing Energy Efficiency is a Critical Issues Needing to be Addressed in the Proceeding to Facilitate the State's Meeting of its Senate Bill 350 and Other Clean Energy And Environmental Goals.

The OIR states that this proceeding will evaluate adjustments to cost-effectiveness policies and that it "may also evaluate actions that could improve the efficacy of energy efficiency portfolios and explore ways to reduce ratepayer funding for programs."[3] The Council has long advocated that the Commission address cost-effectiveness issues and reform as it pertains to energy efficiency.[4] These comments have been made through multiple proceedings, including, but not limited to R.13-11-005 (EE), R.14-10-003 (Integrated Distributed Energy Resource ("IDER")), and A.22-02-005, et al. (EE Applications).[5] However, the Commission has yet to adequately address or implement cost-effectiveness reforms. Given the previous delays in addressing cost-effectiveness, this issue should be a top priority in this proceeding.

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[2] OIR, at p. 6.
[3] *Id*.
[4] *See, e.g.* Council Opening Comments on Ruling Requesting Energy Efficiency Comments/Proposals to Address Governor's Proclamation of July 30, 2021, submitted in R.13-11-005 (EE Rolling Portfolios) on August 31, 2021; Council Opening Comments on Ruling Introducing Distributed Energy Resources Tariff Staff Proposal and Directing Comments and Responses to Questions, submitted in R.14-10-003 (IDER) on October 30, 2020; and Council Prehearing Conference Statement, submitted in A.22-02-005, et al. (EE Business Applications) on May 13, 2022.
[5] *Id*.

As noted in recent state auditor's report, the TRC test includes participant costs – costs not borne by ratepayers – and excludes important non-energy benefits such as improved health, safety, and comfort for individuals, as well as societal benefits like local job creation, increased community resilience, and reduced air pollution. The TRC also does not include bill savings for ratepayers. As such, the TRC test is not an accurate representation of the costs vs. benefits of the energy efficiency resource for ratepayers, nor does it reflect the efficacy of the EE resource in addressing energy affordability. The Commission must ensure that whatever test is used, it accurately reflects the time and locational value of EE measures that address demand at different times of the day or year and at different locations on the grid. Such issues are paramount to the grid as California considers the billions of dollars of capital investments that will be needed as we decarbonize the grid to meet state policy goals. Whatever test that is adopted should include a more holistic set of benefits, and only those costs borne by ratepayers.

The Council commends the CPUC decision to create the TSB for estimated full grid benefits in the cost-effectiveness tests. We encourage use of this metric to add in full consideration of avoided distribution costs associated with EE/DSM measures and how EE portfolio can maximally reduce needed grid investments and realize a reliable and resilient grid.

The Council has previously highlighted issues with the TRC test, most recently in its Petition for Modification of D.19-05-019 ("Petition for Modification") submitted in R.14-10-003 (IDER) on April 15, 2025. In this Petition, the Council argued that the use of the TRC test in "the allocation of DER program budgets penalizes measures that require significant private capital upfront investments, such as heat pumps and weatherization, despite their affordability and grid reliability benefits."[6]

Furthermore, in 2021, the Council recommended that the Commission immediately evolve its EE cost-effectiveness testing method to the Program Administrator Cost ("PAC") test."[7] The Council previously recommended adoption of the PAC test because it "accurately addresses the resource needs given the grid and climate conditions we are facing today" and because the "PAC test also places EE on par with other behind-the-meter DER, as well as

[6] Petition, at p. 2.
[7] Council Opening Comments on Ruling Requesting Energy Efficiency Comments/Proposals to Address Governor's Proclamation of July 30, 2021, submitted in R.13-11-005 (EE Rolling Portfolios) on August 31, 2021, at p. 3.

supply-side resources."[8] As a result of the use of the TRC test, portfolio spending has decreased over the years, which has resulted in the loss of hundreds of millions of dollars in grid and missed ratepayer on missed ratepayer savings. The Council recommends that the Commission establish a detailed plan and expedited schedule for evaluating cost-effectiveness.

2. <u>IDSM Barriers and Assessment Action Plan</u>: The Proceeding Should Undertake Comprehensive Review of the Market, Policy, and Regulatory Barriers that Hinder the Growth of the Likely Significantly Impactful IDSM Resource in California.

IDSM resources hold a major key to unlocking significant unlocked market potential that would be released with successful integration of energy efficiency, key flexible demand approaches, and related DER behind-the-meter resource development efforts in California.

As the state moves forward with plans to garner up to 7000 MW of flexible demand resources by 2030 to meet its proposed Load-Shift goal - *SB 846 Load Shift Goal Commission Report* [9] -- 3000 MW of which are targeted directly at Load Modifying ("LM") programs such as Time-of-Use ("TOU") rates, dynamic pricing, and Load Management programs – it becomes clear that the only market support structure that can effectively deliver such goals is one that includes a significant degree of market coordination, policy, and regulatory alignment between California's historically proven-effective EE market infrastructure and nascent flex demand LM programs infrastructure delivery mechanism being developed.

Further, as the state increasingly focuses on managing risks associated with California's renewable resources related to, among other things, the ever-steepening peak demand ramp-rate curves, the integration of EE with its sister DER resources as foreseen in the California Long-Term Strategic Energy Efficiency Plan[10], provides one of the only market mechanisms available (i.e., lowering of infrastructure use-demand PRIOR to "potential overbuilding" of

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[8] Council Opening Comments on Ruling Requesting Energy Efficiency Comments/Proposals to Address Governor's Proclamation of July 30, 2021, submitted in R.13-11-005 (EE Rolling Portfolios) on August 31, 2021, at p. 3.

[9] SB 846 Load Shift Goal Commission Report, California Energy Commission, 2023) https://www.energy.ca.gov/publications/2023/senate-bill-846-load-shift-goal-report)

[10] The Strategic Plan defines IDSM resources in the following way: "*Energy efficiency, energy conservation, demand response, advanced metering, and distributed generation technologies are offered as elements of an integrated solution that supports energy and carbon reduction and eventually water and other resource conservation goals"* (https://www.cpuc.ca.gov/-/media/cpuc-website/files/legacyfiles/e/5304-eesp-onepager.pdf

implementation of much the needed broadscale DER resources statewide), which can serve our state needs for meeting future demand with both *efficient* and *clean* resources.

The Council provides the following recommendations:

1. Installation of EE measurements represents an opportunity for load flex enablement.
2. A mechanism should be established to define standard load flex audit or a load flex quantification should be performed or available for all deemed and custom EE measures.
3. All EE measures should be required to review load flexibility potential and, to the degree there is potential – enabled such that the potential can be harnessed now or in the future.
4. A set of requirements for load-flex enablement should be created for EE measures and all such measures with potential should be provided with incentives to include load-flex enablement. EE measures should not be penalized for load flex enablement in their cost-effectiveness.
5. The EE cost-effectiveness test should either allow the inclusion of both benefits and costs of load flex enablement or a different source of funding should be allocated to pay for load flex enablement.
6. EE programs should be allowed to claim load flex enablement/DER benefits in TSB and cost-effectiveness test.
7. EE policy should require assessment of load flex benefits and allow the inclusion of benefits for demand management, load shift, load flex, and other time and locational benefits of demand side management.

For these reasons, the Council strongly recommends that the Commission address the significant barriers that currently exist to truly capturing the IDSM resource as a means of supporting and addressing California's current and future energy needs.

3. <u>The Integration of Non-Energy Benefits into Resource Acquisition Program Portfolio Cost-Effectiveness Analysis Should be a Major Topic of Focus of the Proceeding.</u>

Non-Energy Benefits ("NEBs") have been a topic of focus for the California energy community since the initial creation of the California Standard Practice Manual ("CPSM") in the late 1990's. The CSPM developed the C-E methodology that is currently in use with little modification throughout the country. A key method for measuring the value of EE introduced then was the Societal Cost Test ("SCT"). Simply speaking, the SCT provides a mechanism for

taking into account on the benefit side ALL potential benefits of energy efficiency, including what have been termed non-energy-benefits related to system resiliency, reliability, consumer health and safety, and related NEB issues.

Since that time, other states (notably, for example, Massachusetts) have developed SCT link approaches to EE and related resource c-e issues that include valuation of these non-energy-benefits in EE value assessment. To our state's and the Commission's credit, NEBs have been a major topic of interest in the California Energy Savings Assistance Program (ESA), and indeed benefits resulting from NEBs have been integrated into ESA program C-E assessment.

Currently, California's EE resource portfolio, based on the outdated TRC assessment (which does include environmental benefits), does not include NEBs as a component in the valuation EE assessment. It has long been an issue related to the TRC that it is seemingly **"imbalanced"** in that it takes only the energy savings (and some environmental adder value components) into account while ignoring other NEBs inclusion in test analysis.

Recently, however, the Commission has begun assessing and developing draft NEBs indicators and potential goals through its inclusion in D.23-06-055 of the development of an equity sector study to value "market rated" NEBs indicators outside of the context of the ESA rulemaking (R.24-01-018).[11] Study of the potential for market rates values provides a segue to begin considering in this proceeding NEBS as a viable addition to California's assessment of its EE Resource Acquisition portfolio.

The Council highly recommends that NEBs be included as a topic of discussion in this proceeding in that the best data available on NEBs benefit values relating to non-ESA efforts will be available over the course of these proceeding deliberations.

V. THE COUNCIL'S COMMENTS ON CATEGORY, NEED FOR HEARING, AND SCHEDULE

The Council does not object to the preliminary determinations regarding category, need for hearing and schedule.

VI. CONFIRMATION OF PARTY STATUS

Pursuant to Section 6 at page 11: "Persons who file responsive comments become parties to the proceeding (*see* Rule 1.4(a)(2)) and will be added to the 'Parties' category of the official

[11] D.23-06-055, Ordering Paragraphs 17 and 25.

service list upon such filing." By filing these responsive comments, therefore, the Council requests "party status" and inclusion on the service list of R.25-04-010 as a party as follows:

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VII. CONCLUSION

The Council appreciates the Commission's consideration and the opportunity to provide Opening Comments on the OIR. The Council urges the Commission to amend the preliminary scope for this OIR as recommended herein.

Dated: May 19, 2025

Respectfully submitted,

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