

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for
the Guidance, Planning and Evaluation
of Integrated Distributed Energy
Resources.

Rulemaking 14-10-003
(Filed October 2, 2014)

**PETITION FOR MODIFICATION OF DECISION 19-05-019 OF
CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL**

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California Efficiency + Demand Management Council (the Council) hereby submits this Petition for Modification of Decision (D.) 19-05-019. This Petition for Modification is filed and served pursuant to Rule 16.4 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 (EE), demand response (DR), and data analytics services and products in California.¹ The Council's member companies employ many thousands of Californians throughout the state. They include EE, DR, and distributed energy resource (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.

II. SUMMARY OF PROPOSED MODIFICATIONS

California Public Utilities Commission Rules of Practice and Procedure, Rule 16.4(b) states that:

A petition for modification of a Commission decision must concisely state the justification for the requested relief and must propose specific wording to carry out all requested modifications to the decision. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that

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.

may be officially noticed. Allegations of new or changed facts must be supported by an appropriate declaration or affidavit.²

California Public Utilities Commission Rules of Practice and Procedure, Rule 16.4(d) states that:

a petition for modification must be filed and served within one year of the effective date of the decision proposed to be modified. If more than one year has elapsed, the petition must also explain why the petition could not have been presented within one year of the effective date of the decision.³

On May 21, 2019, the Commission issued D.19-05-019, which is the Decision Adopting Cost-Effectiveness Analysis Framework Policies for All Distributed Energy Resources, in Rulemaking (R.) 14-10-003 (Integrated Distributed Energy Resources (IDER)). D.19-05-019 orders that starting July 1, 2019, the Total Resource Cost (TRC) test will be the primary test “for all Commission activities, including filings and submissions, requiring cost-effectiveness analysis of distributed energy resources, except where expressly prohibited by statute or Commission decision.”⁴ In addition, D.19-05-019 orders that starting July 1, 2019, all Commission activities that require cost-effectiveness analysis of DERs “shall also review and consider the results of the Program Administrator Cost test and the Ratepayer Impact Measure test.”⁵

As discussed in more detail below, the use of the TRC 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. The TRC’s use in budget allocation decisions constrains DER programs from contributing to Commission goals, in large part due to the inclusion of “participant costs.” The Program Administrator Cost (PAC) test, which only includes costs incurred to program administrators and not from private investment, is more effective for assessing the value of DER programs and therefore making budget allocation decisions.

As such, D.19-05-019 should be modified to eliminate the use of the TRC test in determining how DER program budgets are allocated, replacing the TRC test with the PAC test as the primary cost-effectiveness metric used for program budget allocation. In this context,

² CPUC Rule 16.4(b).

³ CPUC Rule 16.4(d).

⁴ D.19-05-019, at p. 65 (Ordering Paragraph 1).

⁵ *Id.*, at pp. 65-66 (Ordering Paragraph 2).

budget allocation refers to how funding is distributed across a portfolio of energy efficiency programs. This Petition for Modification proposes replacing the TRC test with the PAC test as the basis for determining portfolio-level cost-effectiveness for budget allocation. Furthermore, to ensure that all programs (not just the portfolio average) are cost-effective based on the PAC test, the Commission may consider applying it at the program-level to ensure a high ratio of ratepayer value to ratepayer investment for individual programs.

To be clear, the Petition for Modification does not propose the replacement of the TRC test for budget creation or any other Commission activities on DER Programs. The Petition only proposes the replacement of the TRC test by the PAC test for program budget allocation.

III. RECENT DEVELOPMENTS THAT WARRANT THE SUBMISSION OF THIS PETITION FOR MODIFICATION

Increasingly, California faces challenges related to affordability, grid reliability, and equity while also targeting the deployment of 6 million heat pumps by 2030 to meet aggressive clean energy and greenhouse gas reduction goals. In October 2024, Governor Gavin Newsom issued Executive Order N-5-24 directing the Commission “to examine all electric ratepayer-funded programs it oversees or administers and to identify any programs, and any other regulations that may be unduly adding to rates.” Furthermore, the Executive Order requests that the Commission “examine the benefits and costs to electric ratepayers of programs it oversees and rules and orders it has promulgated pursuant to statutory mandates that may be unduly adding to electric rates.” This Executive Order makes resolving issues around the TRC pertinent, given that DERs can reduce peak demand and add beneficial electrification load, both of which reduce electricity costs and improve reliability.⁶

Additionally, the California State Auditor released a report on March 18, 2025, which scrutinized the Commission’s use of the TRC test for energy efficiency programs.⁷ The report stated, “...the approach the CPUC takes to measure cost-effectiveness with its calculation of the TRC may discourage utilities from implementing certain efficiency programs, and the approach may contribute to utilities regularly not having cost-effective program portfolios.” The report concludes that “Without corrections to the CPUC’s TRC calculation, the utilities are unlikely to submit program portfolios that include significant amounts of fuel substitution methods,

⁶ Executive Order N-19-24, issued on October 30, 2024.

⁷ California State Auditor Report 2023-127 which can be found here: <https://www.auditor.ca.gov/reports/2023-127/>

ultimately hindering the State’s goal of electrification and the reduction of greenhouse gas emissions.” The California State Auditor’s recent findings highlight the challenges of using the TRC test for budget allocation of energy efficiency programs and reinforce the need for the Commission to modify it, particularly to help achieve state policy goals.

Furthermore, D.21-12-011 established a two-year Market Access Program, but given the emergency nature of the proclamation, it suspended the program from needing to meet cost-effectiveness.⁸ In June 2023, D.23-06-055 removed the cost-effectiveness exemption that was included in D.21-12-011 by stating: “We make it explicit that the cost-effectiveness exemption that was included in D.21-12-011 does not apply for the authorization contained herein.”⁹ The reauthorized Market Access Programs, which were intended to start no later than July 1, 2024, have struggled to pass the TRC test over the last year for high-impact yet high-cost measures.

Finally, D.24-07-015 upheld the use of the TRC as the primary cost-effectiveness test but added the Societal Cost Test for information-only cost-effectiveness.¹⁰ D.24-07-015 stated that: “The primary reason for this approach is that the question of quantifying the cost of harm to society from current use of fossil-fuel energy sources, is different than the question of what particular clean energy program should be paid for by California ratepayers.”¹¹ In turn, the Commission has acknowledged that the TRC is best used to determine how much overall clean energy should be funded by ratepayers, not how specific budget allocation decisions should be made.

In conclusion, the Governor’s Executive Order, the State Auditor’s report, the reauthorized Market Access Programs, and D.24-07-015 are all recent developments in the last year that warrant the submission of this Petition for Modification. DERs such as heat pumps can improve affordability by increasing overall electricity usage while reducing peak demand, expanding the rate base while lowering the costs of infrastructure upgrades, and reducing strain on the grid. Complementary measures like weatherization and demand response can further enhance affordability by minimizing energy consumption during peak periods. Over the last year, it has become clear that the TRC has limited the deployment of DERs that can help fulfil Commission and State goals. By eliminating the use of the TRC in DER budget allocation

⁸ D.21-12-011, at p. 55 (Ordering Paragraph 8)

⁹ D.23-06-055, at p. 76

¹⁰ D.24-07-015, at p. 4

¹¹ *Id.*, at p. 4.

decisions, the Commission can better align its cost-effectiveness evaluations with broader goals including affordability, grid reliability, and equity while not affecting the creation of DER program budgets.

IV. D.19-05-019 MUST BE MODIFIED TO ELIMINATE TRC AS THE PRIMARY METRIC FOR DER PROGRAM BUDGET ALLOCATION

Pursuant to D.19-05-019, the TRC is used in the administration of DER programs, including to define program costs and benefits, create budgets, and allocate budgets.¹² Through this Petition for Modification, the Council does not oppose the Commission retaining the TRC as a primary metric in program budget creation, but it should be removed as a primary metric for DER program budget allocation. Removing the TRC for program budget allocation will maximize ratepayer benefits for any given program budget amount. There are several issues with the current use of the TRC, as it is used in the allocation of DER program budgets.

Notably, D.21-12-011 stated:

The first of these proposals involves changing the entire energy efficiency portfolio to using the PAC test instead of the TRC test for cost-effectiveness assessments. This is a policy issue that has been raised many times already in this proceeding and we understand that many parties prefer this alternative for numerous reasons. Whatever the rationale, it is clear that such a change, all other things being equal, would have an immediate effect of increasing the number of activities that would be considered cost-effective, thereby raising the budgets for energy efficiency. While we are not closed to such a result, far-reaching changes to long-standing cost-effectiveness policy need to be done thoughtfully and therefore this proposal is not something we will approve in response to the emergency proclamation.¹³

D.21-12-011 makes it clear that the Commission's concern with replacing the TRC with another cost-effectiveness test is that it will increase expenditures on DER programs. Given that this Petition for Modification proposes eliminating the TRC for budget allocation decisions, it will have no impact on the overall budgets for DER programs.

There are several issues with the current use of the TRC in the allocation of DER program budgets. To begin with, projects that require significant upfront investments are treated as not being cost-effective under the TRC test despite their affordability and grid reliability benefits. For example, under the TRC, a hypothetical weatherization and heat pump project that

¹² D.19-05-019, at p. 65 (Ordering Paragraph 1).

¹³ D.21-12-011, at p. 41

delivers \$10,000 in ratepayer benefits, costs \$5,000 to administer (including rebates and administrative costs), and costs \$30,000 to install (equipment and labor) would have a 0.33 TRC (the \$10,000 benefit divided by the \$30,000 cost), which is less than 1 and therefore considered not cost-effective. Alternatively, if the PAC test is used, this project would have a 2.00 PAC (the \$10,000 benefit divided by \$5,000 cost), which is greater than 1 and therefore cost-effective.

The result of the continued use of the TRC is that high-impact measures that are essential for California to achieve its energy goals are deemed not cost-effective, limiting the uptake of these measures. In other words, the TRC results in a private investment penalty that hurts ratepayers and prevents DER program investments from improving affordability, despite that private investment reduces the burden on ratepayer funding and maximizes overall cost-effectiveness. In addition, the “participant costs” portion of the TRC constrains DER programs from contributing to California’s clean energy goals. In turn, this hurts consumers and affordability as it is important to leverage as much private sector capital as possible to transition to a cleaner, more reliable energy system.

The California State Auditor found that from 2012 through 2022, energy efficiency portfolios run by Pacific Gas & Electric (PG&E), Southern California Edison (SCE), Southern California Gas Company (SoCalGas), and San Diego Gas & Electric (SDG&E) were rarely cost-effective under the TRC.¹⁴

Therefore, the uptake of high-cost, high-impact measures is constrained by poor TRC scores, stalling affordability, grid resilience, and decarbonization efforts. Yet programs emphasizing low-cost measures (e.g., lighting) pass the TRC test more easily, skewing investments away from deeper retrofits that have significantly more consumer and environmental values. The TRC is therefore an impediment that the Commission must address to help achieve the State’s goals of deploying 6 million heat pumps by 2030 and achieving 100% clean energy by 2045 and the Commission’s goal of doubling energy efficiency savings by 2030.

Removing the TRC for budget allocation decisions and replacing it with the PAC test would alleviate the challenges associated with the TRC test. D.19-05-019 recognized that “the TRC, PAC, and [Rate Impact Measure (“RIM”)] tests each have value”, and therefore switching

¹⁴ California State Auditor Report 2023-127 which can be found here: <https://www.auditor.ca.gov/reports/2023-127/>

from the TRC to the PAC test for budget allocation decisions is warranted.¹⁵ Furthermore, in D.06-06-063, the Commission notes that PAC test estimates are in most cases higher than their corresponding TRC test estimates, meaning that high-impact, high-cost measures that are necessary to achieve Commission and State energy and climate goals would more likely be cost-effective under the PAC test.¹⁶

A PAC test that includes a TSB metric as the numerator (benefits) and all program administrator costs as the denominator (costs) will help better align the Commission's DER cost-effectiveness testing with Commission and State energy and climate goals. In D.21-05-031, the Commission stated: "A TSB metric can capture more benefits of the energy efficiency programs, including GHG emissions reductions and long-term savings goals."¹⁷ Therefore, the Commission has recognized that the TSB is a holistic metric for capturing the full range of benefits of energy efficiency programs.

As such, D.19-05-019 must be modified to remove the use of the TRC from DER program budget allocation decisions and replace it with the PAC test. This change will align DER programs with Commission goals of affordability, grid reliability, and decarbonization; encourage deeper retrofits and greater private sector investment; and will not impact the size of DER program budgets.

V. SPECIFIC WORDING TO CARRY OUT THE REQUESTED MODIFICATIONS

This adjustment would require changes to Ordering Paragraph 1 in D.19-05-019, as well as additions to relevant sections in the Findings of Fact and Conclusions of Law. The Council has outlined these changes below, with all changes marked by **bolded and underlined** text.

Findings of Fact:

NEW. The Total Resource Cost test is not the appropriate test to use for DER program budget allocation decisions because it inappropriately penalizes measures that require significant upfront investments and constrains DER programs from contributing to Commission goals.

Conclusions of Law:

NEW. It is reasonable to utilize the Program Administrator Cost test for DER program budget allocation decisions.

¹⁵ D.19-05-019, at p. 58

¹⁶ D.06-06-063, at p. 89

¹⁷ D.21-05-031, at p. 72

Ordering Paragraphs:

1. Beginning on July 1, 2019, the Total Resource Cost test shall be considered the primary test for all Commission activities, including filings and submissions, requiring cost-effectiveness analysis of distributed energy resources, except where expressly prohibited by statute or Commission decision. **The Total Resource Cost test shall not be used for DER program budget allocation decisions. Instead, the Program Administrator Cost, using all program costs as the numerator and Total System Benefit as the (benefit) denominator shall be used for DER program budget allocation decisions.**

VI. CONCLUSION

The TRC is no longer a feasible or beneficial test for DER program budget allocation decisions. As such, D.19-05-019 should be modified to replace the use of the TRC test with the PAC test as the primary cost-effectiveness metric for determining how DER program budgets are allocated.

Dated: April 15, 2025

Respectfully submitted,

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