CALJ/MLC/cmf 5/01/2025



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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking for Oversight of Energy Efficiency Portfolios, Policies, Programs, and Evaluation.

Rulemaking 25-04-010

CHIEF ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON DRAFT POTENTIAL AND GOALS STUDY FOR 2026 AND BEYOND

This ruling provides notice of a draft 2025 Potential and Goals Study (draft 2025 study) that will inform the California Public Utilities Commission's (Commission) adoption of energy efficiency goals for 2026 and beyond. Parties are invited to file and serve comments on the draft 2025 study, and responses to the questions included in this ruling. If parties choose to comment, comments must be filed and served no later than May 19, 2025, and reply comments must be filed and served no later than May 26, 2025.

1. Background

Public Utilities (Pub. Util.) Code Sections (§§) 454.55 and 454.56(a) require the Commission, in consultation with the California Energy Commission, to identify potentially achievable cost-effective electricity and natural gas efficiency savings and establish efficiency targets for electrical and gas corporations. Commission staff recommends that the Commission set post-2025 energy efficiency goals using the draft 2025 study prepared by Guidehouse (included with this ruling as Attachment 1).

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The Commission, in Decision 23-08-005, adopted energy efficiency savings goals for 2024 and beyond, based on the 2023 Energy Efficiency Potential and Goals Study (2023 study). Since 2021, each study's forecast of energy efficiency potential has included savings from fuel substitution measures, which convert existing energy end use from one Commission-regulated fuel to another Commission-regulated fuel (e.g., replacing a gas stove with an electric induction cooktop). The 2023 study modeled the impact of Inflation Reduction Act (IRA) tax credits, which reduce the cost of purchasing energy efficient equipment in both residential and non-residential premises; all scenarios in the draft 2025 study again model this impact.

The draft 2025 study updates the energy savings potential forecasts of the 2023 study, with the following:

- 2022 and 2023 data on fuel substitution program accomplishments, which shows significant increases in total system benefit (TSB) from water heating fuel substitution measures in the commercial sector;
- Updated avoided costs and savings assumptions, and increased effective useful lives for several key measures; and
- Alignment of the study's model's calibration and all outputs with the statewide goal-setting metric of TSB.

Throughout the development of the draft 2025 study, Commission staff and Guidehouse engaged stakeholders through a series of workshops. Stakeholders were invited to provide informal comments on various methodological approaches and data inputs used in the study.

The draft 2025 study presents three scenarios that reflect varying levels of adoption levers including cost-effectiveness thresholds, incentive levels, program engagement, and the extent of fuel substitution adoption:

- Scenario 1 or "Reference": Uses inputs that reflect the best available information and calibrates the model using program results. The Reference scenario uses a Total Resource Cost (TRC) benefit to cost ratio of 0.85 as the measure-level cost-effectiveness screen, meaning that only measures with a TRC benefit to cost ratio of 0.85 or greater are included in the results.
- Scenario 2 or "High TRC": Uses the same inputs and calibration as the Reference scenario. The High TRC scenario uses a TRC benefit to cost ratio of 1.0 as the measure-level cost-effectiveness screen, representing a more restrained approach (relative to the Reference scenario) to estimating energy efficiency potential.
- Scenario 3 or "Aggressive FS": This scenario models the impact on achievable fuel substitution potential of increasing program budgets and increases the influence of fuel substitution programs on adoption. This scenario also increases measure incentive caps and simulates increased willingness to adopt and program engagement through enhanced marketing, education and outreach.

The draft 2025 study also incorporates two potential implementation frameworks for the California Air Resources Board's (CARB) Zero Emissions Appliance Standards (ZEAS), which phase out the sale of natural gas powered heating, ventilation and air conditioning (HVAC) and water heating appliances. The ZEAS 2030 framework assumes an effective date of 2030 for all affected measures,¹ while the ZEAS Phased framework assumes staggered effective dates² between 2027 and 2031, with a multiyear compliance ramp up period for

¹ California Air Resources Board Proposed 2022 State Strategy for the State Implementation Plan (pp. 101-103), August 12, 2022: https://ww2.arb.ca.gov/sites/default/files/2022-11/Proposed_2022_State_SIP_Strategy.pdf

² California Air Resources Board May 29, 2024 workshop on Zero-Emission Space and Water Heating Standards, presentation slides: <u>https://ww2.arb.ca.gov/sites/default/files/2024-05/May_2024_Workshop_Slides.pdf</u> (accessible as of April 17, 2025).

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select technology groups. Compared to ZEAS 2030, the ZEAS Phased framework does not change overall results but flattens out the large-step change forecasted in 2030 by distributing those reductions more evenly over the preceding three years.

2. Overview of Draft 2025 Study Results

Compared to the 2023 study, the draft 2025 study shows an overall increase in achievable TSB - up approximately 34 percent in Scenario 2 and approximately 44 percent in Scenario 3 for year 2026. Key drivers include the incorporation of fuel substitution program data from 2022 and 2023. In all three scenarios, fuel substitution represents 20-23 percent of overall statewide achievable TSB, with commercial heat pump water heating representing more than 60 percent of fuel substitution gas savings in all scenarios. Additionally, the industrial sector shows a 63 percent increase in achievable energy efficiency potential, notably due to growth in Strategic Energy Management programs, and measures with longer effective useful lives.

While fuel substitution potential from measures that convert existing energy end use from gas to electric increases gas savings, it decreases overall electric energy savings. Relative to the 2023 study, the draft 2025 study shows that overall electric savings decrease by 34 to 36 percent; achievable electric demand impacts decrease by 17 to 20 percent; and overall gas savings increase by 7 to 16 percent.

3. Questions to be Addressed in Comments

Parties are invited to comment on the draft 2025 study (included as Attachment 1) and the following questions. If parties choose to comment, comments must be filed and served no later than May 19, 2025, and reply comments must be filed and served no later than May 26, 2025.

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- 1. Commission staff proposed three scenarios that reflect a reasonable range of energy efficiency potential for 2026-2037. Which scenario either one of those presented in the draft 2025 study or an alternative you recommend is most appropriate to inform the 2026-2037 goals? Please justify your recommendation.
- 2. CARB's 2022 State Implementation Plan memo proposed a ZEAS to phase-out the sale of natural gas-burning HVAC and water heating appliances effective 2030. In a May 2024 public workshop, CARB proposed an updated draft regulatory proposal for staggered implementation of ZEAS, with some appliances being banned beginning in 2027.
 - a. The 2023 study modeled this policy taking effect in 2030, while the draft 2025 study modeled both the 2030 and staggered (beginning 2027) timelines. Should a scenario that includes the ZEAS as having an effective date in 2030 or beginning in 2027 be selected? Please justify your recommendation.
- 3. All scenarios in the draft 2025 study include the impacts of the federal IRA tax credits. How should IRA tax credits be represented in California Energy Data and Reporting System claims? Please provide a recommendation for:
 - a. A value for the tax credit;
 - b. How to determine whether a measure is eligible for the tax credit; and
 - c. How to represent, or distinguish between, eligible and ineligible properties:
 - i. New home construction (not eligible);
 - ii. Home businesses (20 percent credit); and
 - iii. Must be customer's primary residence.
- Fuel substitution potential increased significantly between the 2023 and draft 2025 studies, primarily due to increased program activity. Does the draft 2025 study provide a reasonable estimate of fuel substitution potential for 2026 – 2037? Please justify your response.
- 5. Do you agree with the data assumptions and methodologies used in the draft 2025 study? If not, please explain your concerns, provide justification and identify any alternative publicly available data sources and/or specific methodological approaches you recommend for consideration.

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6. Do you have any recommendations for timeline or process adjustments for future potential and goals studies?

IT IS SO RULED.

Dated May 1, 2025, at San Francisco, California.

/s/ MICHELLE COOK

Michelle Cooke Chief Administrative Law Judge