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May 4, 2023

REVISED 6-15-2023

The Honorable David Alvarez
Chair, Joint Legislative Audit Committee
Legislative Office Building
1020 N Street, Room 107
Sacramento, CA 95814

RE: State Audit of the California Public Utilities Commission's oversight of Energy Efficiency Programs

Dear Assemblymember Alvarez,

I respectfully request the Joint Legislative Audit Committee approve an audit of the California Public Utilities Commission's (CPUC) oversight of rate-payer funded energy efficiency programs.

Background:

California has been a leader in energy efficiency across the country, investing in a series of programs to bring cost savings to residents and businesses as well reduce our carbon footprint. These programs include the adoption of energy efficient building standards, the use of financial incentives and rebates, collaboration with investor-owned utilities (IOU), and public outreach to encourage the adoption of more energy efficient technology.

IOUs fund their energy efficiency programs through a charge on a customer's electric and gas bills, a charge that results in over \$1 billion in funds annually. These IOU programs are regulated by the CPUC, who works with IOUs, other program administrators, and vendors to develop measures that transform technology markets within California using ratepayer funds. As the public watchdog of these funds, the CPUC is tasked with balancing the cost to ratepayers with the long-term energy savings of our state's proposed energy efficiency programs. The Legislature specifically mandates the CPUC, through Public Utilities Code Section 454.5, to "meet unmet resource needs with all available energy efficiency and demand reduction that is cost effective, reliable, and feasible." Public Resources Code Section 25310 (c)(1) also requires a statewide cumulative doubling of energy efficiency and demand reduction by January 1, 2030.

To assess cost-effectiveness, the CPUC develops metrics that divide the supply-side benefits of the energy efficiency measures by the cost of the measure (along with the

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program overhead costs). Because of the statutory cost-effectiveness obligation, the general CPUC policy is to use efficiency program funds only to pay for voluntary measures that exceed codes and standards or "industry standard practice." Due to the success of energy efficiency programs and advancing building codes/appliance standards, cost-effectiveness is becoming much more difficult to achieve. Through a series of proceedings, the CPUC has worked to adjust the metrics they use to assess which projects are deemed cost effective, including a recent decision to adopt a new "total system benefit" (TSB) metric to encourage conservation at high-value times and locations. Despite these changes, it is unclear how much regulatory advancements, like the TSB metric, are enabling the integration of demand-side technologies or impacting energy efficiency program participation across sectors.

As California's clean energy goals advance, many sectors are looking for opportunities to participate in energy efficiency programs and adapt to the changing regulatory landscape. This includes commercial businesses looking for opportunities to integrate energy efficient technology to meet basic needs like refrigerating their produce or schools looking for funds to upgrade their heating, air conditioning, and ventilation (HVAC) systems. Given the changing landscape, an objective analysis is necessitated to assess how the CPUC is balancing the competing demands for energy efficiency funds in a way that ensures that ratepayer funds are actually being spent on programs that meet our energy efficiency and climate goals and ensure timely, broad sector participation.

The state has grappled with ways to streamline the use of these funds to meet urgent needs. For example, in 2020, AB 841 (Ting) established the California Schools Healthy Air, Plumbing, and Efficiency Program (CalSHAPE) program at the California Energy Commission (CEC). This program utilized a portion of ratepayer energy efficiency dollars for schools to upgrade HVAC systems and plumbing fixtures that fail to meet water efficiency standards. This reallocation of funds provided schools with a clear and direct pathway to apply for these funds, delegating authority to CEC. As other industries look for ways to streamline participation opportunities in energy efficiency programs, we must also look at lessons learned from this new initiative and compare it with the existing process at the CPUC.

The purpose of this audit is to pinpoint existing challenges in administering energy efficiency funds and identify opportunities to improve energy efficiency programs and investments. Those improvements will guide wiser investments of ratepayer dollars for the benefit of California ratepayers and our larger clean energy and climate goals.

Scope of the Audit:

The audit should: (1) identify existing barriers to energy efficiency program participation at the program administrator, implementer, and participant levels; (2) review existing cost-effectiveness tests ("CETs") for energy efficiency programs and their effect on which technologies are deemed cost effective; (3) provide recommendations on how to improve the cost effectiveness determinations to streamline investments in the state's energy efficiency programs; and (4) provide recommendations on how to improve the state's energy efficiency programs to better respond to climate change through reducing emissions and/or increasing energy reliability.

The audit should cover the following lines of inquiry:

1. How much money has been collected from ratepayers annually over the last ten years for energy efficiency programs and how much of that money has been spent annually during that same period?
2. What programmatic barriers are contributing to unexpended energy efficiency funds?
3. How is this money being distributed across sectors, including public, commercial, residential, industrial, and agricultural sectors? What portion of residential money is distributed to low income Californians?
4. How is this money being distributed across census tracts and geographic regions?
5. What is the breakdown of the types of technology that are being funded and incentivized through energy efficiency programs, including but not limited to HVAC, electric and natural gas appliances?
6. How much cumulative energy (distinguishing between electricity and gas) have energy efficiency programs saved Californians over at least the last 10 years?
7. What are the cumulative bill savings energy efficiency programs have saved Californians over at least the last 10 years?
8. How many greenhouse gas reductions can be attributed to energy efficiency programs over at least the last 10 years?
9. What policies and regulatory requirements are limiting program participation for resource energy efficiency programs (those that deflect the need for supply side contracts) and equity-based energy efficiency programs?
10. How will new policies, including AB 205 Sec. 3 re: IOU fixed charge requirements, and regulatory requirements (e.g. Resolution E-5115) likely affect determinations for what projects are deemed cost effective for the utility and viable for the customer?

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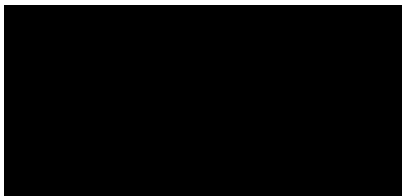
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11. How are energy efficiency program design and regulatory requirements inhibiting or taking advantage of recent technology advancements and the value of those advancements?
12. How are technology advancements and market readiness of technology being accounted for within energy efficiency program designs?
13. How much ratepayer funding is being spent on gas appliances?
14. How much money is going to "pay-for Performance" programs, and what types of improvements are these programs funding? Please identify any programs that enable fuel substitution to electricity versus programs that do not included electrification.
15. What percentage of energy resource portfolios are funneled to natural gas technologies?
16. How are regulatory advancements like the total systems benefit metric, pay for performance, and meter-based accounting, enabling the integration of demand-side technologies?
17. How does the California Energy Commission's administration of the California Schools Healthy Air, Plumbing, and Efficiency Program (CalSHAPE) compare to the CPUC's process for energy efficiency programs?

Thank you for your consideration of this request. If you have any questions or concerns, please contact my staff at (916) 319-2019.

Sincerely,



PHIL TING
Assemblymember, 19th District