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ENERGY EFFICIENCY IMPLEMENTATION PROJECT UNDER 16 TAC § 25.181	§ § §	PUBLIC UTILITY COMMISSION OF TEXAS
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**COMMENTS OF TEXAS ADVANCED ENERGY BUSINESS ALLIANCE
ON ALLIANCE FOR RETAIL MARKETS' AND TEXAS ENERGY ASSOCIATION FOR MARKETERS'
PROPOSAL ON A SMART THERMOSTAT PILOT MARKET TRANSFORMATION PROGRAM**

Texas Advanced Energy Business Alliance (TAEBA) submits these comments on the proposed smart thermostat pilot market transformation program filed by the Alliance for Retail Markets and Texas Energy Association for Marketers on April 1, 2024, in Project No. 38578.

TAEBA includes local and national advanced energy companies. Advanced energy technologies include energy efficiency, energy storage, distributed generation, microgrids, demand response, solar, wind, hydro, nuclear, and electric vehicles. The businesses we represent are lowering consumer costs, creating thousands of new jobs, and providing the full range of clean, efficient, and reliable energy.

Energy efficiency is a proven strategy for lowering electricity bills and reducing energy consumption. By retrofitting 13 million homes in Texas by 2030, Texas could reduce peak energy demand by 14.8 GW in the summer and 23.5 GW in the winter, a major step forward towards establishing reliability in the Lone Star State.¹

We support the proposed pilot program, which represents a positive step toward harnessing the benefits of energy efficiency and demand response. In the ERCOT market, Retail Electric Providers (“REPs”) are able to capture the value of reduced energy costs by marketing smart thermostats to their customers, enrolling those customers on automatic- or manual-dispatch plans, and then reducing the demand associated with home cooling and heating when energy prices are high. This allows REPs to offer lower prices to customers, as well as incentives for smart-thermostat adoption and enrollment, all while maintaining an important feedback

¹ <https://www.aceee.org/white-paper/2023/05/energy-efficiency-and-demand-response-tools-address-texas-reliability>

loop for customer satisfaction, since a customer who does not feel comfortable with a REP's operation of the customer's thermostat will disenroll in the program or, more likely, shop for another REP.

However, there are currently limits to REPs' ability to monetize devices like smart thermostats, because REPs serving residential customers are not able to capture the full range of value associated with demand reduction. Specifically, while REPs are in a position to capture energy value, REPs and their customers have no monetary incentive associated with demand-allocated costs of utility service, such as transmission. This stands in distinction to other customer classes, including large commercial and industrial customers, who may avoid all transmission costs by reducing their demand during certain hours of the summer. Therefore, a regulatory workaround is needed to convey this value to those customers, and one way of doing so is by having transmission and distribution service providers convey incentives to REPs through their EEIP, in a way that augments the value proposition of smart-thermostat programs that are able only to capture energy value.

In the course of time, the Commission should go beyond pilot programs that defray the cost of smart thermostats and move toward a pay-for-performance model that incentivizes measurable demand reduction.

Moving toward a pay-for-performance model will enable REPs to aggregate efficiency and demand response solutions, getting paid based on the actual measured savings they deliver, rather than "deemed" or estimated savings.² This approach aligns incentives and ensures that investments in energy efficiency yield tangible results for consumers and the grid.

Furthermore, we encourage the Commission to expedite the implementation of the Smart Thermostat Pilot Program before the summer of 2024 is in full swing. Time is of the essence, and swift action is needed to maximize the benefits of energy efficiency and demand response for the upcoming summer peak season.

² We imagine a model where REPs themselves have the know-how to run such programs or, alternatively, face strong incentives to partner with third parties who specialize in these aggregations, running them through a REP's platform to ensure accountability and a feedback loop for customer satisfaction within any given customer base in the retail-competitive landscape of ERCOT.



In conclusion, TAEBA supports the Smart Thermostat Pilot Program and urges the Commission to move toward a pay-for-performance model to unlock the full potential of energy efficiency and demand response in Texas. Thank you for considering our input, and we stand ready to assist in any way to advance these critical initiatives.

Respectfully submitted,

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