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PROJECT NO. 56517

REVIEW OF ENERGY

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PUBLIC UTILITY COMMISSION

EFFICIENCY PLANNING

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OF TEXAS

COMMENTS OF OCTOPUS ENERGY ON COMMISSION STAFF’S QUESTIONS

Octopus Energy, REP License #10262, appreciates the opportunity to file these Comments in response to Commission Staff’s questions filed on April 23, 2024. Octopus Energy deeply appreciates Staff’s interest in pursuing demand-side flexibility solutions. Energy efficiency (EE) and demand response (DR) are distributed energy resource (DER) technologies. As a class of technologies, DERs are smaller, more modular, and quicker to market than “supply side” utility-scale generation. DERs also are flexible, demand-side resources available to electricity grids, including the local distribution utility system as well as the bulk power system and wholesale markets. When fully integrated into ERCOT markets, retail electric provider (REP) offerings, and utility distribution system planning and operations, DERs will radically improve the retail customer experience with cleaner, more affordable, and more reliable and resilient power.

To achieve an improved customer experience, policies need to become more customer-centric, starting with a focus on Texas homes and businesses. Octopus Energy encourages the Commission to focus on building the energy efficiency and demand-side flexibility foundation that Texas truly needs. As noted above, DERs are small, modular, and faster-to-market compared with traditional large-scale technologies. They also have the capability of directly improving the comfort and experience of individual customers in a way that can be directly measured by advanced metering to demonstrate energy and demand savings. As customers improve their homes and businesses with a tighter building envelope, they in turn become more valuable, more efficient DER resources themselves - e.g., if a thermostat setting is shifted in a home for demand response,

the more energy efficient home can maintain that shift without “leaking” energy due to a loose building envelope. For this reason, the “leakiest” homes need the most attention to improving their energy efficiency. Further, as more DERs are deployed locally, customers who have excess energy due to self-generation should be able to sell that energy to their neighbors and local communities, providing a valuable service to those who need the additional energy and also reducing the burden on the distribution grid. Stated differently, we should be thinking about building a comprehensive, distributed energy network starting locally – with customer homes and businesses – and then expanding outward.

As a REP that is actively providing retail offerings that incorporate customer-sited DERs for demand flexibility, we have a keen interest in working with the Commission and other stakeholders to fully integrate these resources into utility distribution systems and the ERCOT wholesale market. Focusing on the demand side of the equation is long overdue. We recognize that full integration of DERs will require multiple Commission workstreams, including completing pending DER rulemakings on interconnection and cost allocation, modifying energy efficiency rules, promulgating rules to implement SB 1699, continuing to expand upon the ADER pilot, and evolving ERCOT Protocols to better accommodate DERs. Further, to facilitate competitive market delivery of customer products and services by REPs, it will be critical to transition to pay-for-performance markets for EE and DR so that the market pays only for actual savings achieved. But more importantly, it is essential to the reliability of the grid, with its unparalleled load growth, that the Commission rapidly expand the state’s commitment to EE and DR. Texans cannot afford to wait years for new generation and transmission infrastructure to be built while electricity demand is ballooning in the present. Now is the time to aggressively expand opportunities for residential customers to access EE and DR products and services to counteract ERCOT’s explosive growth

in demand by setting aggressive DR goals pursuant to SB 1699 and substantially increasing existing EE goals. As discussed further in these comments, we also recommend setting aside a portion of expanded EE program funding to be allocated to REPs to facilitate delivery of these products and services to retail customers, as well as exploring ways to optimize incentives for maximum customer and grid benefits.

COMMENTS ON STAFF'S QUESTIONS

- 1. Should certain hours of the day be considered more valuable within the design of standard offer or targeted market-transformation programs offered by utilities? Please discuss your rationale in detail.**

Yes. Electricity system planning has long recognized the value of seasonal differences, as well as time of day differences. For example, ERCOT's ancillary services methodology projects services that need to be procured for every hour for an entire forward-looking year. As electricity systems become increasingly characterized by high renewable and battery storage penetration, the value of certain hours of the day becomes even more clear: for any given hour, what is important is balancing aggregate load versus aggregate supply. ERCOT SCED dispatches occur every five minutes (and sometimes even more frequently) to reflect the different value of energy throughout the day. And given that supply and demand of the electricity system are two sides of the same mathematical equation, if it is true for the supply side that different hours and minutes are more valuable, then it is also true that demand-side DER resources, including EE and DR, also are more valuable during certain hours and minutes of the day.

Moreover, it is important to recognize that these values are dynamic and change over time such that the value of a certain hour or group of hours in one year may not be the same the following year or years. For example, while reducing peak demand on a hot summer day traditionally was very valuable, the growth of solar generation in the ERCOT Region has made load reductions at

system peak demand much less valuable more recently. These ongoing dynamic changes require a more nuanced and flexible approach to identification of when EE and DR are more valuable.

2. What metrics should be used to track the success of low-income and hard-to-reach programs under 16 Texas Administrative Code (TAC) §25.181?

Octopus Energy does not have specific recommendations to offer at this time. However, we note that a Commission-led working group in 2023 explored low-income and hard-to-reach issues through the Commission's Energy Efficiency Implementation Project (EEIP) process, and we are hopeful that this group would have recommendations to bring forward for broader discussion by stakeholders.

3. Avoided cost of capacity and energy:

- a. **Existing 16 TAC §25.181(d)(2) calculates the avoided cost of capacity. Should this calculation be revised in a future energy efficiency rulemaking? If so, how? Please discuss your rationale in detail.**
- b. **Existing 16 TAC §25.181(d)(3) calculates the avoided cost of energy. Should this calculation be revised in a future energy efficiency rulemaking? If so, how? Please discuss your rationale in detail.**

This question is interconnected with Question No. 1. As required by existing §25.181(d), benefits of utilities' EE programs consist of the value of demand reductions and energy savings, measured in accordance with the avoided costs for capacity and energy. In both cases, these avoided cost calculations use annual average costs, which are by definition a radical departure from the hourly values of capacity and energy that exist on the grid itself. Although simpler to calculate as an average, this disconnect creates a fatal flaw that prevents DERs such as EE and DR from being properly valued. Currently, Texans are subsidizing billions of dollars for new thermal generation resources to meet phenomenal load growth in this state, along with paying for a corresponding build out of transmission infrastructure. Alongside those efforts, we can and should

place equal priority on responding to an increase in demand through more localized, flexible demand-side solutions.

Octopus Energy further notes that the values for energy and capacity are currently based only on a bulk system basis and do not account for the local value to the distribution grid. DERs must be valued in a more comprehensive manner, i.e., in a way that also recognizes that the distribution utility may defer or avoid capital investment due to the presence of that DER in a particular location because of its local capacity or energy value. Utilities could be using targeted incentives to facilitate improved operation of a particular feeder, for example, through DERs.

Additionally, as the Commission considers modifications to its EE and DR rules going forward, we suggest that the Commission explore moving to a “total system benefits (TSB)” methodology¹ for evaluating benefits rather than separately evaluating avoided costs for capacity and energy. For example, a TSB valuation could include DER value attributable to distribution system resilience or other state policy objectives in addition to avoided costs for generation, transmission, and distribution. Separating benefits into different silos creates inefficiencies and does not fully capture the multiple value streams that a single DER can provide. For example, an energy efficient heat pump with a smart thermostat can provide both energy efficiency and demand response value.

4. Existing 16 TAC §25.182 calculates utility performance bonuses. Should this calculation be revised in a future energy efficiency rulemaking? If so, how? Please discuss your rationale in detail.

Yes. The Commissioners have indicated an interest in reviewing the performance bonus mechanism and in fact included a requirement in the post-Winter Storm Uri market design

¹ The Electricity Journal, 35 (2022) 107192, Mohit Chhabra, *One metric to rule them all: A common metric to comprehensively value all distributed energy resources*.
<https://www.sciencedirect.com/science/article/abs/pii/S104061902200118X>

“blueprint” to “Set higher performance standards for energy efficiency programs.”² Octopus Energy interprets this Commission directive to mean that the Commission should increase the EE goals as well as re-evaluate the bonus mechanism to ensure that bonuses require more effort to achieve. The utilities have exceeded their summer peak demand reduction goals each year since 2003, in some years substantially overachieving, suggesting it is appropriate to re-evaluate the bonus structure. We further note that the cost of utility programs as defined in §25.181(d) includes the cost of utility bonus payments, so if the Commission desires to get more value for money spent, reducing costs related to bonus payments is one way to do that.

5. Existing 16 TAC §25.181 addresses energy savings and demand reduction goals. Should these existing goals be revised in a future energy efficiency rulemaking? If so, how? Please discuss your rationale in detail.

Yes. As noted in our response to Question No. 4, the Commissioners included a requirement in the post-Winter Storm Uri market design “blueprint” to “Set higher performance standards for energy efficiency programs.”³ As noted above, Octopus Energy interprets this as a directive that the Commission both increase the EE goals and re-evaluate the bonus mechanism to ensure that bonuses require more effort to achieve. Texas EE goals have not been updated since 2011, and, as a result, are wholly inadequate now, even though Texas has the highest potential for cost-effective energy efficiency than any other state. A 2022 report from Texas Advanced Energy Business Alliance (TAEBa) noted that at least a doubling of the existing goals would be reasonable and achievable, and likely more aggressive goals would deliver feasible, cost-effective savings.⁴ An ACEEE report from August 2023 concluded that prioritizing deployment of 10 EE

² Project No. 52373, Review of Wholesale Market Design, “Approval of Blueprint for Wholesale Market Design and Directives to ERCOT,” (Jan 13, 2022).

³ *Id.*

⁴ Texas Advanced Energy Business Alliance (TAEBa), “Future Proofing the Texas Grid with Distributed Energy Resources,” (June 15, 2022), www.texasadvancedenergy.org

and DR retrofit measures over the 2024–2030 period could serve over 14 million Texas households and offset about 15,000 MW of summer peak load and 25,300 MW of winter peak load, providing continued bill savings and comfort benefits to those households over the 10-20 year lives of the proposed retrofit measures.⁵ These analyses are indicative of the level of investment in DER measures that Texas should be seeking to achieve, and the potential benefits that could be delivered to customers and the electricity grid.

6. In the upcoming rulemaking to implement SB 1699, what other issues should be considered? Should the existing energy efficiency rules be restructured? Please discuss your rationale in detail.

Section 5 of SB1699 added PURA § 39.919, which, among other provisions, explicitly requires the Commission to conduct a rulemaking to establish goals to reduce average total residential load. The statute also contains several other elements that must be taken into consideration in the development of a rule promoting residential demand response. Given that SB 1699 requires promotion of smart meter technology as well as expanding opportunities for adoption of home technologies that go beyond smart thermostats, Octopus Energy recommends that a rulemaking should transition toward competitive delivery of market-based, actual measured savings (rather than deemed savings estimates), where REPs are compensated on a pay-for-performance basis for the EE and DR they deliver. Octopus Energy also supports consideration of DR and EE issues together, and recommends that the Commission's EE rules be restructured to better reflect the issues discussed in these comments, including better valuing DERs such as EE and DR.

⁵ American Council for an Energy-Efficient Economy (ACEEE), "Energy Efficiency and Demand Response: Tools to Address Texas' Reliability Challenges," White Paper, August 2023, https://www.aceee.org/sites/default/files/pdfs/energy_efficiency_and_demand_response_-_tools_to_address_texas_energy_reliability_problems_-_encrypt.pdf

Octopus Energy supports aggressive expansion of the state's commitment to DERs including EE and DR. Given their relationship to retail customers, REPs should be key players in delivering EE and DR to customers, especially residential customers. We strongly recommend that the Commission consider modifying delivery models for utility EE and DR to better utilize this relationship. For example, we recommend that the Commission consider both an increase in the funding available for EE and DR programs, as well as establishing a percentage of that increased funding for utility programs to be delivered by REPs. Under current programs, a REP must apply for funding from each individual utility, and each utility may have different program rules even for similar programs. Just as REPs can better deliver retail products and services to customers with the standardization that comes from having a pro-forma TDU tariff, creating standardized programs across ERCOT utilities and providing adequate funding opportunities that are dedicated to facilitating REP delivery of EE and DR would dramatically improve the ability of REPs to reach their customers.

Octopus Energy further recommends exploring ways to optimize the combined EE and DR benefits that can accrue to customers and the grid. For example, a device that has efficiency value, such as a heat pump or water heater, could be allowed to access additional incentives for being controlled as a DR device in a retail or wholesale DR program. In addition, a household enrolled in a DR service that does not have a tight building envelope will be ineffective as a DR resource; therefore, energy efficiency incentives that improve the building envelope should be paired with incentives to install and enroll devices into DR services. As noted above, as customers improve their homes and businesses with a tighter building envelope, they in turn become more valuable, more efficient DER resources themselves. For this reason, the "leakiest" homes need the most attention to improving efficiency. Finally, the Commission should coordinate with other relevant

state agencies, such as the State Energy Conservation Office (SECO) to ensure that federal efficiency rebate funding is complementary to state utility EE funding to achieve maximum benefits to customers and the electricity grid.

7. What activities should the Energy Efficiency division prioritize over the next twelve months?

Consistent with these comments, Octopus Energy recommends the following priority actions to be completed over the next 12 months:

- Begin smart thermostat deployment for REPs for Summer 2024 delivery of DR;
- Complete rulemaking for SB 1699;
- Complete DER interconnection and cost allocation rulemakings;
- Modify utility EE/DR rules to:
 - Aggressively increase goals for delivery of EE and DR;
 - Create set-aside for REP delivery of utility EE and DR programs;
 - Incorporate market-based, pay-for-performance delivery models for delivery of demand flexibility;
 - Optimize incentives to deliver maximum benefits to customers and the grid (e.g., EE combined with DR and federal funding complementary to utility funding);
 - Explore moving to total system benefit model rather than using annual average (and incomplete valuations of) avoided costs for capacity and energy.

CONCLUSION

Octopus Energy appreciates the opportunity to provide these Comments and looks forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael J. Jewell", with a long horizontal flourish extending to the right.

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EXECUTIVE SUMMARY OF KEY RECOMMENDATIONS

Octopus Energy recommends the following priority actions to be completed over the next 12 months:

- Begin smart thermostat deployment for REPs for Summer 2024 delivery of DR;
- Complete rulemaking for SB 1699;
- Complete DER interconnection and cost allocation rulemakings;
- Modify utility EE/DR rules to:
 - Aggressively increase goals for delivery of EE and DR;
 - Create set-aside for REP delivery of utility EE and DR programs;
 - Incorporate market-based, pay-for-performance delivery models for delivery of demand flexibility;
 - Optimize incentives to deliver maximum benefits to customers and the grid (e.g., EE combined with DR and federal funding complementary to utility funding);
 - Explore moving to total system benefit model rather than using annual average (and incomplete valuations of) avoided costs for capacity and energy.