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PUC PROJECT NO. 56517

REVIEW OF	§	PUBLIC UTILITY
ENERGY EFFICIENCY	§	COMMISSION
PLANNING	§	OF TEXAS

ENVIRONMENTAL DEFENSE FUND'S INITIAL COMMENTS

Environmental Defense Fund (EDF) offers these initial comments in response to the Public Utility Commission (PUC) Memorandum filed in Project No. 56517 on April 23, 2024.

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, certain hours of the day are intrinsically more valuable within the market, therefore usage avoided during those hours should also be more valuable. Although average costs have been the basis for payment in the past, EDF believes that prospective programs should be designed to fit within the valuation construct of the new market compensation programs moving forward.

For instance, current conservative operations emphasize reliability and include additional payments for generation availability during times of peak demand in addition to the higher prices earned by generators while in scarcity. ERCOT and the PUCT are developing programs not only to attract new generation, but to keep the old generation online to meet the increasing demand. In addition, the state will be providing loans and incentives for new generators to be available during peak usage.

Moreover, traditional seasonality is no longer a predictor of usage. Changes in climate patterns and generation sources have created a more volatile intraday market creating a situation where certain hours will be inherently more valuable. Increasing issues with congestion and the

associated costs have also impacted on the intraday market pricing. Just as the design of the programs should be taken into consideration mitigating the impacts of climate and transmission, the value of those hours should be signaled in the design.

EDF recommends using a time-sensitive cost-avoidance calculation that includes both season and time of day for energy efficiency and other distributed energy programs.

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?

EDF recommends the following metrics to consider for tracking success of low-income and hard-to-reach programs:

1. Size of the eligible market and the number of customers offered program benefits and response rates to various marketing procedures.
2. Number of customers utilizing benefits and number of customers completing programs in the eligible market.
3. Cost of utilities for customers before the program is implemented and afterwards. This includes both the actual savings and usage reduction.

Since the PUCT does not have access to quality data on how many customers are struggling to pay for electricity or how many disconnects for failure to pay their utility bill are occurring, a methodology for collection of this information would be useful in development and measuring success. EDF recommends using currently available data in other state aid programs to begin a process for estimating eligible customers.

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.

The avoided cost of capacity methodology used currently by the PUCT is too narrow and does not reflect the actual market technology mix or current market conditions. The current

methodology is based on a report published annually by the U.S. Energy Information Administration that uses data gathered in prior years. In addition, only the cost for one technology - CT Industrial Frame - is used as a guide. For example, the *Avoided Cost of Capacity for the 2024 Program Year* as filed in Project No. 38578 is based on the EIA's Annual Energy Outlook 2023 report. The numbers in the 2023 report reflect 2022 dollars per kW and do not include interest costs, which have increased substantially since the time of the report. The figures are also based on construction beginning in 2019.¹

Although the calculations may lag behind the current reality of avoided costs in capacity, it does not likely impact or limit the program in the same manner as low cost caps. An increase in the cost caps could provide the needed flexibility for higher goals even without a change in the avoided cost of capacity calculations.

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.

EDF supports updating the calculation for the avoided cost of energy to holistically reflect current market costs for customers, not just settlement prices. Code provides that the avoided cost of energy be determined by “the load-weighted average of the competitive load zone settlement point prices for the peak periods covering the two previous winter and summer peaks.” This does not include the additional charges for transmission and distribution that are charged separately from the energy.

Many customers are experiencing delivery charges that are a substantial part of the cost to receive electricity. In the CenterPoint rate Case Docket 56211, filed in March of 2024, the proposed residential customer delivery charge is \$0.0261 per kWh. This amount usually represents the second highest charge on a bill after the electricity.²

¹ “Cost and Performance Characteristics of New Generating Technologies”, U.S. Energy Information Administration, March 2023. https://www.eia.gov/outlooks/aco/assumptions/pdf/elcc_cost_perf.pdf

² Application of CenterPoint Energy Houston Electric, March 6, 2024. https://interchange.puc.texas.gov/Documents/56211_3_1372761.PDF

A change in the method of avoided cost calculation would likely be necessitated if certain hours are to be valued higher or lower. Some states have already modernized methods of calculating avoided costs of energy to include additional consumer costs. Recently, the U.S. Department of Energy's Office of Energy Efficiency supported work to develop a publicly available "Time-sensitive value calculator for energy efficiency and other distributed energy resources" to assist in estimating the value of energy efficiency using hourly estimates of electricity system costs.³

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.

EDF recommends the following changes for performance bonus structure:

- Performance bonuses based on percentage of the actual costs of the program versus the avoided costs of the program.
- Bonuses should only be awarded if the goals are exceeded, not just meeting the minimum for compliance.
- Performance bonuses should be adjusted based on the class of customer and type of program. Because commercial class customers are included in the same bonus structure as residential or hard-to-reach customers, there are no incentives for increasing outreach, offerings, and uptake in the more difficult customer class programs.

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.

Texas was once a leader in setting high goals for energy savings and demand reduction. The goals established in 16 TAC §25.181 were established more than a decade ago and now lag behind significant program savings that are being achieved in other states. Increasing the goals

³ "Time-sensitive value calculator for energy efficiency and other distributed energy resources," U.S. Department of Energy, February 2022. https://cta-publications.lbl.gov/sites/default/files/tsv_user_manual.pdf

for energy efficiency and demand response programs only makes the grid more resilient as well as saving the costs of additional capacity. Considering the latest large load increases projected for ERCOT over the coming years, increased energy efficiency goals could provide a relatively inexpensive and critical pathway toward meeting growing load needs.

To be aligned with other states, Texas would need to raise the percentage of retail sales to nearly 1%. According to a report published in 2023 by the American Council for an Energy Efficient Economy, the major Texas utilities are at .5% or lower.⁴

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.

During the rulemaking, EDF seeks to clarify issues for implementing Section 39.919, Average Total Residential Load Reduction. Specifically, clarifying guidelines for the requirements that a customer have access to providers of energy efficiency services and to providers of energy generated by renewable energy generation. What is the definition of ‘reasonably available’ and how are the recipients chosen for programs?

SB 1699 encourages transmission and distribution utilities to use up to 10% of their demand response program budget expenditures on load management programs described in Section 39.905 of the Utilities Code. EDF supports this optional provision and encourages consideration of programmatic changes to incent maximum participation.

Section 39.919 (9) of the bill *“allows a retail electric provider that offers a demand response program under this section to obtain funding for the demand response program through an energy efficiency incentive program.”* EDF would like clarification on the funding mechanism and requirements for obtaining funding.

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

⁴ “2023 Utility Energy Efficiency Scorecard,” American Council for an Energy-Efficient Economy, August 24, 2023.

- First and foremost, increase energy efficiency savings goals for energy efficiency programs. Make Texas a leader among states again.
- Modernize the avoided capacity and avoided energy calculations to reflect the reality of market and customer costs.
- Improve administrative costs and bonus structures so that more funds are used for programs.
- Increase cost caps to achieve higher goals.

ENVIRONMENTAL DEFENSE FUND

Executive Summary

EDF is supportive of this rulemaking and the efforts to modernize and increase energy efficiency programs. As the PUCT is aware, a well-functioning power grid means balancing a two-sided equation - supply and demand. Much attention, rightly so, has been focused on policy and regulatory needs to increase power supply. A focus on energy efficiency/demand response measures is an opportunity for the PUCT to meet and manage demand growth (particularly peak demand) in a fast and cost-efficient manner. As it has been frequently said, the cheapest kW is the one not used. EDF encourages the PUCT to think and act aggressively in implementing energy efficiency and other demand-side management tools, giving them the equal weight they deserve as we all work toward a cleaner, more reliable and resilient power grid.

The following is a summary of EDF's responses:

Question 1: Yes, certain hours of the day are intrinsically more valuable within the market, therefore usage avoided during those hours should also be more valuable.

Question 2: EDF recommends the following metrics:

- Size of the eligible market and the number of customers offered program benefits and response rates to various marketing procedures.
- Number of customers utilizing benefits and number of customers completing programs in the eligible market.
- Cost of utilities for customers before the program is implemented and afterwards. This includes both the actual savings and usage reduction.

Question 3a: The avoided cost of capacity methodology used currently by the PUCT is too narrow and does not reflect the actual market technology mix or current market conditions.

Question 3b: EDF supports updating the calculation for the avoided cost of energy to holistically reflect current market costs for customers, and include transmission and distribution.

Question 4: EDF recommends the following changes for performance bonus structure:

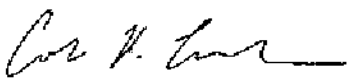
- Performance bonuses based on percentage of the actual costs of the program versus the avoided costs of the program.
- Bonuses should only be awarded if the goals are exceeded, not just meeting the minimum for compliance.
- Performance bonuses should be adjusted based on the class of customer and type of program.

Question 5: Significantly increase energy efficiency and demand response goals.

Question 6: Specifying guidelines for the requirements that a customer have access to providers of energy efficiency services and to providers of energy generated by renewable energy generation. What is the definition of 'reasonably available' and how are the recipients chosen for programs? In addition, clarification on the funding mechanism and requirements for obtaining funding for programs implemented under SB1699.

Question 7: Increase energy efficiency savings goals for energy efficiency programs, modernize the avoided capacity and avoided energy calculations, improve administrative costs and bonus structures, and increase cost caps.

Respectfully Submitted,



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