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# SIERRA CLUB

## LONE STAR CHAPTER

Project No 56553 APPLICATION OF AEP TEXAS INC. TO ADJUST ITS ENERGY EFFICIENCY  
COST RECOVERY FACTOR AND RELATED RELIEF

**SOAH Docket No. 473-24-19711**

APPLICATION OF AEP TEXAS TO	§	PUBLIC UTILITY
ADJUST ITS ENERGY EFFICIENCY COST	§	COMMISSION OF TEXAS
RECOVERY FACTOR	§	

### Comments of the Lone Star Chapter of the Sierra Club

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**June 26th, 2024**

COMES NOW, the Lone Star Chapter of the Sierra Club and files these brief comments on AEP Texas's proposed adjustment to its Energy Efficiency Cost Recovery Factor and the programs it plans to implement in 2025. The Sierra Club is still considering whether to intervene as a party in the case, and will submit a motion before the deadline if it plans to formally intervene in the case. In any case, we wanted to make these comments to support a much bigger program. Given that energy efficiency remains a cost effective solution that benefits consumers, authorizing a much larger budget under the cost caps should be pursued. We also wanted to point out that while SB 1699, approved by the Legislature in 2023, encourages ERCOT TDUs to add residential demand response to their programs, thus far AEP has not committed to adding such a program. We think they should.

**AEP APPEARS TO BE MEETING THE LAW, BUT IS FAILING TO CONSIDER THE OPPORTUNITY TO IMPLEMENT ALL COST-EFFICIENT AND AVAILABLE ENERGY EFFICIENCY EVEN AS THEY SEEK THE FULL PERFORMANCE BONUS; AND THEY SEEM TO IGNORE SB 1699**

On May 31st, 2024 , AEP Texas filed an application to adjust its energy efficiency cost recovery factor (EECRF) to implement energy efficiency programs intended to meet the requirements found in 39.905 and associated rules approved by the PUCT. AEP Texas's proposed 2024 EECRF and EE plans are very similar to its previous plans from 2022 and 2023. They are proposing to spend a similar amount – roughly \$25 million - to what they spent between 2022 and 2024, are proposing to recover their full performance bonus, and meet similar goals, easily exceeding them. ***Their budget includes a performance bonus topping \$6 million dollars meaning that about 25% of ratepayer funds would be used to pay for a performance bonus for easily meeting their demand and energy savings goals.***

Overall, they believe they would under their plan reduce peak demand by some 61 MWs and reduce energy use by 77,000 MWhrs roughly tripling their demand reduction (21.55) goal and doubling their energy savings goal (37,756). Still this is roughly equivalent to what they achieved in 2022 and 2023 and it must be stated that they are leaving potentially tens of MWs of demand reduction and thousands of MW hours of energy savings at a time when the grid is under stress in both summer and winter periods even as their EECRF that is proposed is well under the 2024 PUCT approved cost caps for both residential and commercial customers. Just this week, ERCOT is expected to meet new records in summer peak demand, and Texans in South Texas and the Valley are struggling to pay bills, and the PUCT should demand that our TDUs increase their offerings and investment in cost-effective energy efficiency. Indeed, AEP Texas has room under the reasonable cost caps imposed by the PUCT to spend roughly 50% more than what they are proposing, which would benefit consumers, the environment and the grid.

Table 1 shows AEP's proposed budget, including their proposed performance bonus, and demand and energy savings, comparing 2022 through 2024. Again, there is little change being proposed. Table 2 shows the proposed EECRFs, while Table 3 shows the large room available to AEP under the cost cap to do much more to save energy and reduce peak demands. Indeed, AEP is proposing to lower rates in 2024 and lower program achievements at the very time when more peak demand and energy savings would be so valuable to the grid. As an example, their proposed EECRF for residential would cost the average ratepayer \$1.02 per month, but they are authorized to spend up to \$1.62 per month for energy efficiency programs for the average consumer. They are leaving a similar amount on the table for commercial consumers. In essence they are leaving a potentially larger budget to help Texans save energy and provide a greater solution to grid resilience.

Table 1. Selected Parameters of AEP programs

	2023	2024	2025 (proposed)
Program Costs	\$18,024,458	\$18,694,458	\$18,859,458
Over-Under Recovery	(\$197,105)	\$227,177	\$504,366
EM & V	\$232,708	\$233,450	\$233,450
Performance Bonus	\$7,931,405	\$6,077,493	\$6,041,869
Rate Case Costs	\$38,262	\$55,306	\$43,347
Total Cost	\$26,029,727	\$24,833,529	\$24,673,758
Demand Goal	21.08	21.55	21.85
Demand Achieved	61	60.93	67.55
Energy Savings Goal	36,932	37,756	38,281
Energy Savings Achieved	76,648	76,758	87,659

Table 2. AEP Texas proposed EECRFs, 2024

Proposed EECRF	Residential	Secondary Service Below 10	Above 10	Primary	
2025	\$0.001072 per kWh	\$0.000693 per kWh	\$0.000670 per kWh	\$0.000562 per kWh	

**Table 3. Cost Caps and Proposed Budget**

Category	Proposed EECRF	Cost Cap EECRF	Proposed Budget	What AEP Texas could spend at cost cap
Residential	\$0.001072	\$0.001626	\$14,640,394	\$22,211,220
Small Commercial	\$0.000693	\$0.001017.	\$10,033,364	\$15,564,410
Total			\$24,673,578001	\$37,775,630

As Table 3 makes clear, AEP Texas could under the cost cap propose a much higher budget than proposed, achieving greater amounts of energy demand reduction and energy savings. Assuming our calculations are correct, AEP Texas could be submitting a budget request of approximately \$38 million as opposed to \$25 million.

While it is true that the Legislature did not take bold action on energy efficiency or demand response in the regular legislative session, energy efficiency bills did advance in both the House and the Senate. In addition, as part of the approval of SB 1699, they did add provisions directing the PUCT to establish demand response goals for residential consumers in the competitive ERCOT market. Amazingly, AEP's 2025 plan completely ignores residential demand response and AEP Texas is offering no residential demand response program either by aggregators or retail electric providers, which given passage of SB 1699 does not meet current laws. While they have indicated they may do so in the future, it is disappointing to see the plan ignore this cost effective option when temperatures in the Valley have been so extreme.

### **AEP Programs**

The Sierra Club does not object to the standard offer programs and market transformation programs being considered as part of the 2025 EECRF plan. However, they are offering the same programs they have in previous years. AEP Texas should be doing more, particularly for low-income Texans and for those living in multi-family housing. AEP Texas appears to have no Residential Load Management SOP or MTP to provide incentives to participating Service Providers and Aggregators for reducing peak electric demand at residential premises, despite several commercial programs. AEP Texas should consider adopting programs similar to those

offered by Oncor Electric in their 2025 plan. Recently, ONCOR and other utilities filed a proposed pilot residential demand response program to work with retail electric providers and yet AEP Texas is not proposing to offer this program even as a pilot in 2024. The program could engage Service Providers and Aggregators, including retail electric providers, to provide demand response capability using remotely controlled load control devices in homes. In addition, AEP Texas should also consider adding a smart thermostat direct install program, especially ones focused on low-income and multi-family properties.

We also would note that the majority of AEP Texas programs seem focused on the summer months, even though recent events such as Winter Storm Uri, and more recent record peak demands show the need to focus on residential and commercial winter loads. While they have added a winter SOP it appears to be focused only on commercial customers. They should be providing incentives for space heaters, water heat pumps and other appliances that help reduce winter loads.

Thus, ***AEP Texas should also offer winter programs for residential consumers, and increase the demand response programs being offered in general, including through retail electric providers.*** Only focusing on summer peak demand is wasting an opportunity. We also believe that more whole-house programs could be considered, and even more of a focus on heat pumps than in the current plan. Finally, while we appreciate the solar programs, AEP Texas could consider also adding storage as a component of those plans.

#### **Sierra Club appreciates the conversation with AEP Texas**

We wanted to recognize that in early 2024, Sierra Club did meet with AEP energy efficiency staff and also participated in an outreach meeting with energy service providers. We appreciate the ongoing conversation, but we had hoped that AEP Texas would expand programs in 2025 as a result of our conversations.

#### **AEP Texas should prepare for federal funding be applied for by SECO**

SECO has announced it is applying for approximately \$690 million in federal funds through a third-party administrator, likely in early 2025. AEP should anticipate this new funding and consider programs that provide information to consumers about these opportunities and ways to combine their own programs with federal funding. We hope AEP Texas would consider adding this program during the 2025 calendar year.

## **Conclusions**

AEP Texas is proposing a very similar program in 2025 compared to 2023 and 2024, and is predicting they will exceed demand and energy goals, even exceeding their achievements from previous years. We would note that their performance bonus of \$6 million is roughly 25% of their total budget which seems unfair to ratepayers, and at the very least, they should increase their program budget so that ratepayers get more for their investment. Under the existing cost caps, AEP could literally nearly double their proposed budget but are not considering anything new.

The Sierra Club believes that AEP Texas should be directed to spend significantly more and specifically increase funding for low-income and hard-to-reach programs, begin funding residential demand response programs and also consider winter energy efficiency and demand response programs for residential consumers. Whole house and storage rebates should also be considered. Finally, anticipating additional federal funding for energy efficiency should be considered.