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PROJECT NO. 57743

Review of Energy Efficiency Substantive Rules	§ § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF THE SOUTH-CENTRAL PARTNERSHIP FOR ENERGY EFFICIENCY AS A RESOURCE (SPEER)

NOW COMES the South-central Partnership for Energy Efficiency as a Resource ("SPEER"), and files these comments in response to Commission staff's request for public comments on the substantive rules of the energy efficiency programs pursuant to 16 TAC § 25.181 filed in this docket on February 24, 2025.

Introduction

The South-central Partnership for Energy Efficiency as a Resource (SPEER) is a 501(c)(3) non-profit regional energy efficiency organization (REEO). We are one of six in the country that aims to accelerate the adoption of advanced building systems and energy efficient products and services throughout the nation. We work collaboratively to strengthen local economies, improve health and quality of life, and improve the environment while reducing demand on the grid.

Comments

SPEER greatly appreciates the review of the energy efficiency rules and the approach by staff to have comprehensive, robust stakeholder engagement throughout the process. Energy efficiency and the suite of demand side energy resources should play a critical role in building a more resilient and reliable grid for Texas. The necessary generation buildout, even with funds appropriated through the Texas Energy Fund, will still be time-consuming and take at minimum several years to complete. Challenges with supply chain shortages, permitting required, and additional upfront capital investments for supply-side generation add precious years to the development, while load growth continues to grow exponentially. Meanwhile behind-the-meter

demand side technologies can bridge the gap, be administered quickly, and slow load growth while more generation is developed. Texas' established efficiency programs can benefit greatly from this rule review process. Energy efficiency remains one of the most cost-effective solutions to slow demand growth and peak demand, boasting a staggering 3.2 cost-benefit ratio. In other words, for every dollar we spend on energy efficiency we get over three dollars back in savings. In addition to the cost-effectiveness of the current programs, new technologies and measures have been added to the Technical Reference Manual and are being implemented in the programs every year that will benefit Texans and lower their energy bills. We believe that beginning this rule review with new definitions for hard-to-reach and low-income customers, as well as a thorough analysis of cost-effectiveness criteria sets the stage for the programs to improve through incremental changes. This promotes flexibility to utility administration of programs and provides more accessibility of the programs to more Texans. While these changes are reviewed and implemented, it is still important to note the continued need for generation to be built out. However, these improvements can provide time for all other resources and policies to be developed and perfected while keeping consumer costs low.

Proposed Definitions:

a. **Low Income: Residential households with income levels at or under 80% of the calculated area median income.**
b. **Hard-to-Reach: Rural area where the utility is unable to administer energy efficiency programs in a manner similar to other areas served.**

SPEER supports establishing the definition for low-income customers to be at or under 80% of area median income. This provides flexibility to utilities in administering their low-income programs as it does not set a statewide level that could restrict areas to levels too low for qualification. Regional, or area, median income benefits customers in the service territories allowing for greater eligibility. SPEER would suggest consideration of including a categorical eligibility language for low-income program for ease of qualification purposes. Tying the eligibility to some federal or state low-income programs will make it simpler for utilities to recognize and confirm eligibility for this program.

The new definition of low-income customers may potentially expand the number of eligible participants in the program. As such, it would be beneficial to note the need to expand the budget for the low-income programs to meet the increase in eligible customers. Currently, only 10% of the budget for energy efficiency programs is required to be spent on low-income programs. However, over 14% of the Texas population are considered in poverty, and some estimates show 40% of Texans deciding between paying electricity bills or other necessities. As a result, it is likely these programs will continue to have high demand from residents, and we must adjust the program rules accordingly to accommodate for more participation. We recognize this is not part of this piece of the rule review, but felt it is necessary to state the need for this consideration at a later stage of the review process.

For the Hard-to-Reach definition, SPEER appreciates the focus on rural areas as those communities represent a gap in coverage for the efficiency programs for many of the investor-owned utilities (IOU) in Texas. However, we are concerned that it narrows the definition too much. Hard-to-Reach should also include renters in multifamily housing, seniors, and customers who speak English as a second language. These populations continue to have little say on their energy demand for a number of reasons. Specifically, seniors and renters living in multifamily dwellings are subject to landlord decisions. Broadening this definition to include these populations would allow for utilities to develop targeted strategies to address multifamily housing to reduce peak demand. Additionally, inclusion of these populations would allow for utilities that do not have much rural land in their service territory to provide for other customers in need with these funds. The intent of this suggested change to the definition is to allow for greater flexibility of the dollars where appropriate.

Cost-effectiveness Standard:

a. **What changes should be considered when calculating cost-effectiveness?**
    i. **Discuss changes, if any, that may be warranted to elements of the cost calculation, including measurement and allocation of costs.**

    SPEER would support changes to the cost calculation that remove utility bonuses from cost-effectiveness calculations. Currently, by rule cost-effectiveness includes costs of incentives, EM&V contractor costs, bonuses awarded to utility, and actual or

allocated research and development and administrative costs. While SPEER supports the bonus structure to incentivize utilities to incorporate more efficiency and demand response, inclusion of the bonuses in this calculation significantly impacts whether the programs are cost-effective. By including the bonus payments, it weighs negatively in the calculation when it is designed to benefit strong performance of the programs. We would suggest that it is a hinderance and ultimately robs utilities of their actual potential to administer more energy efficiency measures within their programs.

As we will discuss below, it is important to state the importance of portfolio level cost-effectiveness while developing the calculations. Taking out the bonus payments from this calculation and using a portfolio level cost-effectiveness criterion, we will see more dollars be directed towards energy efficiency programs which fundamentally reduce our demand and lower costs to consumers.

ii. Discuss changes, if any, that may be warranted to elements of the benefits determination, including measurement and avoided costs.

The avoided cost calculation timeframe should be moved up in the calendar so that utilities have time to review any changes to the avoided costs and can adjust their programs accordingly. Currently the costs are provided by November of each calendar year for the following program year, giving only a month for utilities to determine viability of certain measures and programs. SPEER supports adjusting the timeline for avoided cost calculation to be moved up in the year so that utility programs can accurately determine program needs and viability for the following program year.

The avoided costs calculation should also reflect the avoided cost of capacity and energy. Currently, system avoided costs is based on the cost of a new gas turbine. These costs generally fall between $700 and $1000 per kW (currently $863 kW), however in reality we see avoided costs across the country reflecting between $1,500 and $1,900, and estimates over the next five years increase to over $2,400 per kW[1].

[1] **Jigar Shah, Director of Loan Programs Office, USDOE, Open Circuit Podcast, February 21, 2025**

Supply chain limitation issues and increasing demand only further exacerbate the need for more robust accounting of avoided costs, including capacity and energy avoided costs in the system. This in turn increases the value of energy efficiency. Additionally, inclusion of the avoided cost of transmission and distribution from targeted efficiency efforts also increases the value of demand-side resources, since these measures reduce demand to the system. As a result, SPEER would support the PUCT's consideration of adding into the calculation for cost-effectiveness the avoided costs of transmission and distribution.

The inclusion of avoided costs of transmission and distribution is not a new criterion for cost-effectiveness to most states in the country. According to the Database of Efficiency Screening Practices 80% of states include transmission and distribution avoided cost in their calculations.[2] This further exemplifies the true value of energy efficiency to our grid, building resiliency and reliability while lowering costs to consumers.

b. What is the appropriate level at which to compare costs to benefits?

i. What are the benefits of considering sector-level cost-effectiveness?

Measures that are cost-effective are paramount to customer trust and utility performance. However, the existing program level cost-effectiveness criterion hamstrings the utility's ability to be flexible and try new technologies that have not yet matured. While Texas IOU energy efficiency programs are allotted time to pilot new technologies, the annual program cycle, in conjunction with the compressed schedule for publishing avoided cost calculation and undervalued avoided cost of capacity, act as a deterrent for innovation within the programs. Additionally, constraints with which measures are included in the Technical Reference Manual or need adjusted also limit the ability of utilities to pilot and implement new technologies into the market. While SPEER supports cost-effective programs, we also

[2] https://public.tableau.com/app/profile/ac3e/viz/DatabaseofStateEfficiencyScreeningPractices_17377419994200/DatabaseofScreeningPractices

believe in flexibility for the IOU's to be innovative and balance out their programs at the portfolio level to allow for maturation of measures. Additionally, while this is not included in the scope of this part of the rule review, we believe it is important to state the opportunity to review planning cycle duration. Similar to the portfolio level standard to provide added flexibility for programs to mature, elongating the program cycles to three-year intervals would also allow for maturation of programs in a controlled setting. By pairing a portfolio level cost-effectiveness standard with a multi-year planning cycle, measures that need time to develop are then able to mature while the EM&V contractor, utilities, and PUCT staff can still ensure good stewardship of ratepayer dollars.

A forward-looking example of this would be variable speed all-climate heat pumps. SPEER participated in the 2024 TRM update process to develop a variable speed all-climate heat pump metric into the document. Prior to this update, utilities were unable to receive full credit for these higher efficiency units because only one metric existed and did not differentiate between single stage systems and variable speed systems. IOU's were essentially disincentivized from developing variable speed heat pump programs due to the higher costs for these heat pumps compared to a single speed system. Utilities were only allowed to claim deemed savings at the level of less efficient systems. Now with a new metric in the TRM, which still will need to be adjusted as the programs develop, utility programs can more freely include highly efficient heat pump deployment. These heat pumps have been noted by reports like the recent Texas A&M study as essential to reducing Texas peak load in the coming years. However, because the metric will need to be calibrated over time, these programs may need time to become cost-effective. Programs that may not have as high yielding cost-effective scoring can and should be offset with programs that have been adjusted and become highly cost-effective over the 20 plus year life of the efficiency rule can provide time for new technologies to score higher in the calculations.

Conclusion

SPEER appreciates your consideration of the important issues discussed in these comments and stands ready to participate as the proceeding moves forward.

Respectfully Submitted,

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