August 13, 2024

The Honorable Robert Rivas
Speaker, California State Assembly
1021 O. Street, Suite 8330
Sacramento, CA 95814

The Honorable Mike McGuire
President Pro Tempore, California State Senate
1021 O. Street, Suite 8518
Sacramento, CA 95814

RE: Protecting energy efficiency funding in Public Purpose Programs

Dear Speaker Rivas and President Pro Tem McGuire:

We, the undersigned organizations, are writing in strong opposition to efforts that propose to eliminate all non-cost-effective energy efficiency program funding from Public Purpose Program (PPP) Funds. While we understand the Legislature's need to evaluate the effectiveness of programs, we see this additional auditing process as a misguided attempt to eliminate energy efficiency programs that have saved more than $100 billion in utility bills[1] since the 1970s, benefitting ratepayers, the environment, and California's economy.

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[1] California Energy Commission, Achieving Energy Efficiency. https://www.energy.ca.gov/about/core-responsibility-fact-sheets/achieving-energy-efficiency

Energy efficiency lowers ratepayers' bills and eliminating this funding is counterproductive. Utility energy efficiency programs are funded through California ratepayers and regulated by the California Public Utility Commission (CPUC). PPP Funds make up around 5-8% of a resident's electric bill and go far beyond energy efficiency, funding a variety of programs in the public's interest. PPPs include, but are not limited to, EPIC (research & development grants administered by the CEC and IOUs), AB 841 transportation electrification and school HVAC upgrades, and CARE/FERA discounts. Only 1.5-2% of a resident's bill is attributable to energy efficiency programs, or put another way, an average residential customer in Southern California with an electric bill of $183 a month would only be investing $3 on energy efficiency programs.

Energy efficiency reduces pressure on the distribution grid and supports equitable decarbonization. The CPUC and California Energy Commission (CEC) are focused on increasing loads and the distribution grid. Energy efficiency is critical in maintaining the state's grid reliability and mitigating costly distribution upgrades. In addition to reducing these utility-level costs, energy efficiency is also often the only way consumers can reduce the amount of money ratepayers spend on their utility bills without decreasing health, comfort, or safety in their homes. Eliminating energy efficiency as a use for PPP funds strips funding collected from, and promised to, residential and industrial consumers – including those in disadvantaged areas. Reallocating those funds for other purposes without plans or programs to unlock the funding to ratepayers whom they were promised to is a step backwards in our effort to make utility bills more affordable and equitable for Californians.

Programs that serve low-income, environmental justice, small businesses, and other hard to reach customers and communities are vital, but often not cost-effective under traditional tests. The customers who are bearing the brunt of the affordability crisis are also the customers who benefit the most from energy efficiency programs, which help them reduce their usage and lower their bills. Especially for customers in environmental justice communities, wildfire-prone areas, and other pollution-impacted communities, energy efficiency programs also provide essential health and safety benefits, in addition to more affordable bills. These customers are the least likely to be able to invest in efficiency upgrades on their own, and rely on robust incentive programs with reliable funding. Strict adherence to stringent, traditional cost effectiveness tests means that these groups of customers would likely not be served at all, which would have a detrimental effect on affordability for the very customers who are most in need of assistance.

Energy efficiency is cost effective at the portfolio level and the misleading characterizations of non-cost effectiveness at the program level do not accurately capture the well evaluated and proven performance of energy efficiency. Program administrators of energy efficiency programs intentionally balance investments across an entire portfolio. The way this is currently achieved is by attributing all energy efficiency achieved up to code to the utilities' codes and standards program, but only "above code" savings to programs. This means that most of the actual energy savings of these boots-on-the ground programs are ignored for purposes of the CPUC's "cost effectiveness" test. The Public Advocates Office used an individual program analysis when stating individual programs are not cost-effective–which is not how the funding is appropriated or evaluated. The Public Advocates Office even includes measurement and verification of savings - ensuring ratepayer dollars are well-spent - as "non-cost-effective".

Certain energy efficiency programs are moving toward a pay-for-performance model. Energy efficiency has increasingly focused on pay-for-performance programming in recent years; under these programs, ratepayer funds are only spent on actual energy savings achieved and held back if the programs do not achieve the expected energy savings goals. Additionally program Administrators of energy efficiency are already reporting to the CPUC on metrics the legislature would need in order to evaluate program performance and value.

Energy efficiency is critical to reaching state goals of carbon reduction and electrification. In 2015, with the passage of the Clean Energy and Pollution Reduction Act of 2015 (SB 350), the Legislature doubled energy efficiency savings goals. In the same year, AB 802 (Williams, Chapter 590, Statutes of 2015) allowed ratepayer funded incentive programs to support bringing older buildings up to and eventually beyond energy efficiency code levels using existing conditions baseline. Electrification can significantly increase bills if not paired with energy efficiency measures. For example, electrifying a drafty and unsealed building will lead to using a lot more electricity than if the work paired energy efficiency with electrification; this would increase not only customer bills but also total system costs, since more electricity would need to be procured to power an inefficient space.

We welcome conversations to discuss the background and potential alternatives to improve the Public Purpose Program, energy efficiency programs, and energy affordability. Unfortunately, the proposal to gut Public Purpose Program funding for non-cost-effective energy efficiency programs would move California further away from our energy and climate goals while stealing ratepayer incentive funding for other uses.

These organizations oppose proposed amendments to eliminate all non-cost-effective energy efficiency program funding from Public Purpose Program Funds.

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