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California Public Utilities Commission  
Energy Division  
505 Van Ness Avenue  
San Francisco CA 94102

## **Re: Comment on Energy Efficiency Business Plan Application Equity Segment**

To the CPUC Energy Division,

The SB 350 Disadvantaged Communities (DAC) Advisory Group (DACAG) provides the following comment on the Equity Segment of the Energy Efficiency Business Plan. Energy Division presented a summary of the Plan to the DACAG at our July 15, 2022 meeting. We request that Energy Division incorporate the following recommendations.

### **I. The Energy Efficiency Business Plans, Related Metrics and Cost-Effectiveness Tests Must Include an Adequate Consideration of Non-Energy Benefits**

Outdated cost-effectiveness tests pose a significant barrier to the deployment of clean energy resources in Environmental and Social Justice (ESJ) communities. “Non-energy benefits are often not considered in cost-effectiveness tests, which devalues some of the most important factors that motivate investment in clean energy upgrades, such as family health and safety, comfort, and tenant retention.”<sup>1</sup>

Pursuant to SB 350, one of the “Principle Recommendations” from the Energy Commission in the Low-Income Barriers Study (2016) is:

Establish common definitions of non-energy benefits, develop standards to measure them, and attempt to determine consistent values for use in *all energy programs*.<sup>2</sup>

Furthermore, Goal 2 of the CPUC’s Environmental and Social Justice (ESJ) Action Plan seeks to “increase investment in clean energy resources to benefit ESJ communities, especially to improve local air quality and public health.”<sup>3</sup> Consequently, the CPUC must incorporate non-energy benefits (NEBs) in two regards, including in the Energy Efficiency Business Plans: first, as a determining factor in appropriate cost-effectiveness tests; and second, as a metric to

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<sup>1</sup> SB 350 Low-Income Barriers Study, Part A - Commission Final Report at 3.

<sup>2</sup> *Id.* at 5 (emphasis added).

<sup>3</sup> ESJ Action Plan Ver. 2.0 (April 7, 2022) at 23, available at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-and-outreach/documents/news-office/key-issues/esj/esj-action-plan-v2jw.pdf>.

determine whether energy programs are meeting ESJ Action Plan direction and other policies, specifically here, the equity segment.

As discussed at the July 15, 2022 DACAG meeting, it is important to incorporate an adequate consideration of NEBs as soon as possible. The ESJ Action Plan describes that “there are 65 action items from Energy Division in the current [Version 1.0] ESJ Action Plan.”<sup>4</sup> One of those action items relates to NEBs in energy efficiency programs. Specifically:

CPUC Action 9.8: Quantify non-energy and local economic benefits of the environmental efficiency Local Government Partnerships in hard-to-reach and disadvantaged communities.<sup>5</sup>

Under “status,” the ESJ Action Plan Version 1.0 states that:

D.18-05-041 required the IOUs file a motion proposing how to quantify these benefits. The motion was filed on August 31, 2018 [with a] Proposed Decision expected by early 2020.<sup>6</sup>

This status update refers to the mandate in D.18-05-041 for IOUs and Local Government Partnership partners to quantify “co-benefits and economic development benefits of programs in disadvantaged communities and/or for hard-to-reach customers.”<sup>7</sup> On August 31, 2018, the IOUs filed this joint motion.<sup>8</sup> While the joint motion includes a discussion of NEBs, it does so only in an attachment with several factors to be determined, including data points and monitoring frequencies.<sup>9</sup> On August 9, 2019, the CPUC ruled on this motion, deferring consideration of NEBs to a consultant process.<sup>10</sup> The consultant process resulted in Evergreen Economics’ final report, Local Government Partnership Quantification of Co-Benefits and Local Economic Benefits in Hard-to-Reach and Disadvantaged Communities (2021).<sup>11</sup> Notably, however, this report does not include NEBs important to DAC residents, including affordability and health.<sup>12</sup> In addition, “[d]ata on co-benefits are not currently tracked by all partnerships, nor is data collection consistent across these partnerships.”<sup>13</sup> While this report represents a good start, there is still much work to be done to meet the ESJ Action Plan and Energy Commission

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<sup>4</sup> *Id.* at 62.

<sup>5</sup> ESJ Action Plan Ver. 1.0 (February 21, 2019) at 44, available at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-and-outreach/documents/news-office/key-issues/esj/environmental-and-social-justice.pdf>

<sup>6</sup> *Id.*

<sup>7</sup> D.18-05-041 at 189.

<sup>8</sup> A.17-01-013 (and related matters) Joint Motion for Approval of Standard Contract For Local Government Partnerships (August 31, 2018) available at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M231/K128/231128543.PDF>

<sup>9</sup> *Id.* at Attachment B.

<sup>10</sup> D.19-08-006.

<sup>11</sup> Local Government Partnership Quantification of Co-Benefits and Local Economic Benefits in Hard-to-Reach and Disadvantaged Communities (May 2021) [https://www.calmac.org/publications/LGP\\_Co-Benefits\\_Final\\_Report\\_051421.pdf](https://www.calmac.org/publications/LGP_Co-Benefits_Final_Report_051421.pdf)

<sup>12</sup> *Id.* at 3.

<sup>13</sup> *Id.* at 4.

recommendations. It is unclear how the CPUC intends to further develop the data and metrics necessary to adequately consider NEBs.

Given Goal 2 of the current ESJ Action Plan, this inadequate consideration is particularly problematic. It is not possible to consider the benefits to DACs if the CPUC's programs are simply not designed to consider several of those benefits. This deficiency is troubling for energy efficiency specifically, as lack of consideration of NEBs omits consideration of the many structural, market and policy barriers to energy efficiency programs. For instance, deployment of energy efficiency in ESJ communities may often require additional retrofits and treatments due to housing stock quality, resulting in higher comparative costs that current cost-effectiveness tests cannot recognize or justify. The DACAG therefore requests that Energy Division coordinate with relevant stakeholders and members of the public to continue work on quantifying and incorporating NEBs as a metric for program evaluation as soon as possible.

This work can begin immediately, with prerequisite data collection and reporting even if the CPUC has not yet finalized quantifying NEBs. As a start, the CPUC can begin to collect data to inform the proposed metrics detailed below. For example, although the CPUC has not yet adopted a methodology to quantify criteria pollutant reductions in monetary terms, the CPUC can at least begin collecting data to determine how to evaluate the benefits of reduced local pollution.

In addition, the CPUC should revise and implement a cost-effectiveness test that can adequately consider NEBs. Currently, with inadequate cost-effectiveness tests, it makes sense to exclude resource acquisition from cost-effectiveness requirements under the equity segment. The Total Resource Cost test is currently not appropriate to adequately compare the costs and benefits of energy efficiency programs in DACs. Although the test includes participant costs, it fails to consider participant benefits, importantly including NEBs. As detailed above, this skews cost-effectiveness determinations to the detriment of DAC residents and potential participants. Determining cost-effectiveness of resource acquisition in the equity segment should evolve as the CPUC adequately determines NEBs. Total system benefits could certainly include NEB factors, such as criteria pollutants. The DACAG therefore requests that Energy Division, concurrent with its work in determining and quantifying NEBs, also develop and propose for public comment a cost-effectiveness test that is capable of adequately considering NEBs.

## **II. The Commission Should Increase the Equity Segment Budget Cap and Impose a Budget Floor**

Upfront investment and affordability present significant barriers to clean energy resources, including energy efficiency. The SB 350 Low-Income Barriers Study identifies that:

[Additional IOU energy programs targeting specific sectors of the low-income community and] funding from additional sources can be extremely important . . . to maximize the scope of energy efficiency . . . projects in housing for low-income persons and disadvantaged communities.<sup>14</sup>

The DACAG requests that the CPUC remove the budget cap for market support and equity. Alternatively, the CPUC should at least raise the cap. A 30% cap is too low given the number of DAC households alone in the state. As we add in underserved and hard-to-reach

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<sup>14</sup> SB 350 Low-Income Barriers Study, Part A - Commission Final Report at 28.

customers as well, the total population eligible for the equity segment expands, and likely exceeds 30%. In any event, budget distribution should reflect historic underinvestment, rather than just being proportional to population. Furthermore, because the previously-discussed barriers may make individual interventions more expensive per-capita and per-kWh, a larger fraction of the budget may need to be allocated to these communities to ensure equivalent levels of efficiency savings.

Related, the CPUC should also impose a budget floor as a percentage of overall budget. Comparing IOU and non-IOU Project Administrator equity budgets, while the equity budget amounts are relatively similar, the percentage of budget for the IOUs is far less (5-14%) compared to the CCAs (25-26%, but subject to the 30% cap) and RENs (63-76%). SDGE, for instance, does not even seem to budget for residential energy efficiency in the equity segment for 2022-2023, or, the budget is so small that it is practically invisible on the chart.<sup>15</sup> As recommended in the Low-Income Barriers Study, the IOUs should target a greater percentage of their budget to the equity segment.

### III. The Commission Should Use the Following Metrics for the Equity Segment

In order to track progress towards achieving equity, the program administrators (PAs) submitted a slate of candidate metrics and indicators. The majority of PAs proposed they would collect data on these metrics and indicators for two years before setting targets. However, we suggest that instead the PAs identify a meaningful long-term goal and then ensure that their annual targets will achieve that goal. More specifically, we know that in order to achieve its climate targets, California must decarbonize all of its buildings by 2045.<sup>16</sup> However, populations such as renters, low-income households, and other historically underserved communities often face the highest barriers to adopting clean and efficient technologies,<sup>17</sup> even though they also often have the highest energy cost burdens and could most benefit from efficiency measures. To alleviate energy cost burdens, it makes sense to prioritize households in historically underserved communities first, and therefore set a pre-2045 target — e.g., to expand efficiency to *all* of these populations by 2035.

The business plan metrics and targets should therefore be structured in a way that such a goal can be easily achieved and progress measured. We therefore strongly recommend that the metrics include both the *total* number of customers served as currently proposed — such as single family or multifamily homes — as well as the *percentage of eligible customers served*. Assuming, for example, that the business plans officially start in 2024, more than 8 percent of hard-to-reach, undeserved, and ESJ/DAC customers would need to be reached every year to ensure all of these customers receive efficiency upgrades by the end of 2035. While the number of buildings reached per year may not be constant, the targets should be set in such a way that they clearly demonstrate how each PA is on a pathway to achieve such a goal, and the metrics designed to clearly evaluate progress towards this end goal.

In order to identify the customers that should be targeted for equity-focused efficiency investments, the DACAG supports the inclusion of hard-to-reach and ESJ communities with disadvantaged communities. To add more precision to such definitions, we suggest that these

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<sup>15</sup> Energy Division July 15, 2022 Presentation to DACAG on EE Business Plan Equity Segment, Slide 10.

<sup>16</sup> Building Decarbonization Coalition, A Roadmap to Decarbonize Buildings (2019) *available at* [https://gridworks.org/wp-content/uploads/2019/02/BDC\\_Roadmap\\_final\\_online.pdf](https://gridworks.org/wp-content/uploads/2019/02/BDC_Roadmap_final_online.pdf).

<sup>17</sup> See SB 350 Low-Income Barriers Study, Part A - Commission Final Report

should include all communities on Tribal lands, all customers currently qualifying for bill assistance programs such as CARE, and customers facing energy cost burdens over six percent per year or facing affordability challenges such as those identified through the California Public Utilities Commission's Affordability Ratio<sup>18</sup> or similar metrics. This list is not meant to be exhaustive, but is provided to suggest a few specific populations for inclusion. Therefore, in defining "underserved populations," the DACAG recommends that the Commission use Option 2 "plus" where PAs begin with the ESJ Communities definition, and these additions detailed above, and also propose additional categories of underserved customers, along with an accompanying rationale supporting the addition.

In addition to the percentage of target customers reached every year, we suggest a few other additions to the metrics and indicators reported by PAs. These metrics can help provide data to calculate NEBs in future iterations. Our suggested metrics and indicators are as follows:

- The percentage of eligible customers reached for each customer class (in addition to total number of customers reached).
- The average kWh, kW, and therm savings per customer, by customer class (in addition to the total savings for the program).
- The average annual bill savings for participating customers, both first year and annually.
- The average energy cost burdens, and reduction in energy cost burdens, for residential customers.
- The number and percentage of CARE or other bill-assistance customers (and eligible customers) who receive efficiency upgrades, as well as the energy savings and bill savings for these customers. Specifically, the data should enable us to determine whether energy cost burdens have fallen for these customers, by how much, and the bill-assistance savings that have been achieved through energy efficiency investments.
- Appropriate metrics to track workforce development, job quality and job placement, as well as access to training and employment for disadvantaged populations.
- The estimated reduction of criteria air pollutant (tons), both in-home and from the electric grid, in addition to GHG reductions.
- Average disconnection and arrears rates for homes pre- and post-treatment.
- An evaluation of how many/much of the indicators, including other NEBs, programs meet. NEBs should be an indicator for all Energy Efficiency Programs.

While we suggest setting an overarching target that enables efficiency measures to reach all eligible buildings by roughly 2035, the additional metrics and indicators we suggest above can be used to help refine some of these targets, such as to provide specific goals regarding reductions in energy cost burdens or in indoor air pollutant emissions. Thus, after two years of reporting, it would be valuable to review these indicators and metrics and identify additional goals.

We also agree with the parties who suggest that gas appliances investments should be excluded from the business plans. We are concerned that investments in gas appliances would lock in stranded assets, and such investments should be directed towards electrification instead.

#### **IV. Conclusion**

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<sup>18</sup> R.18-07-006, CPUC Affordability Staff Proposal (2021) available at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/affordability-proceeding/r1807006--staff-proposal-on-affordability-metrics-implementation.pdf>.

In summary, we believe the Energy Efficiency Business Plans would be strengthened by the inclusion of non-energy benefits and the expansion of the metrics and indicators used to evaluate Plan success. We also believe the impacts of these plans on undeserved, hard-to-reach, and ESJ communities could be greatly expanded by creating an equity budget floor, raising or eliminating the budget cap, and ensuring each PA's targets set it on a pathway to ensure energy efficiency programs reach all eligible customers on a meaningful timeline.

We thank the Energy Division for its presentation to the DACAG and consideration of our comments and welcome ongoing discussion on the Energy Efficiency Business Plans.

Sincerely,

The Disadvantaged Communities Advisory Group