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Comments from the Flex Coalition on 23-DECARB-01 IRA HOMES Program

Please see the attached comments from the Flex Coalition.

Additional submitted attachment is included below.

January 26, 2024

Commissioner J. Andrew McAllister
California Energy Commission
715 P Street
Sacramento, CA 95814

Re: Docket No. 23-DECARB-01: Response to RFI on the Inflation Reduction Act Home Energy Rebates

Dear Commissioner McAllister:

On behalf of the Flex Coalition, I am responding to the California Energy Commission's (CEC) Request for Information (RFI) on the Inflation Reduction Act (IRA) Home Efficiency Rebates Program (HOMES).

The Flex Coalition (www.flexcoalition.org) consists of 28 of the nation's leading commercial and residential demand flexibility providers. These companies, a number of whom are based in California, are leading the way in providing energy efficiency, demand response, and behind-the-meter storage solutions in California and across the nation.

The measured pathway of the HOMES program provides California with an ideal solution to maximize energy benefits for low-income households, ensuring reductions in emissions and energy bills by incentivizing only actual, measured savings. California already leads the nation in deploying measured savings programs, and the CEC can leverage the existing infrastructure to rapidly deploy the HOMES program across the state.

The CEC proposal[1] to incorporate HOMES into the Equitable Building Decarbonization Program (EBD) and potentially provide rebates based upon cost – rather than energy

[1] Per the CEC's RFI, "at this time, CEC is planning on incorporating or 'braiding' HOMES funding with the Equitable Building Decarbonization (EBD) Direct Install Program" (p.2), though the RFI acknowledges the

savings – would miss an opportunity for California to achieve the maximum energy savings potential of the HOMES program. The Flex Coalition urges the CEC to stand-up the HOMES rebates as a true whole-home energy savings program as envisioned by Congress, with increasing incentives for higher energy savings, to ensure that California makes the most of this historic opportunity.

Leverage existing infrastructure to accelerate deployment: California already has successful implemented measured savings programs, including those run by the Tri-County Regional Energy Network (3C-REN), Sonoma Clean Power (SCP), Marin Clean Energy (MCE), and Peninsula Clean Energy (PCE). These existing pay-for-performance programs are national leaders in driving market transformation.

- Providing additional funding through the HOMES program can help these programs reach additional households and increase their incentives for low-income households. These programs can also serve as a model for Community Choice Aggregators (CCAs), RENs, and/or the IOUs to set up new pay-for-performance programs based on existing, proven infrastructure.
- The CEC can work with the existing measured savings programs to use HOMES funding to provide bonus incentives to cover as much of the project cost as possible for projects in disadvantaged communities and low-income households. For example, 3C-REN's Single Family Residential Program offers targeted incentives to disadvantaged communities with streamlined kicker incentives for both electrification and efficiency improvements.

The Measured Approach Drives Market Transformation: The intention of the measured pathway of the IRA HOMES Program is to catalyze market transformation by creating markets for residential energy efficiency and electrification that last far beyond the IRA funding, providing a mechanism to scale building decarbonization efforts at the lowest cost and bolstering grid reliability. Additionally, the California Public Utility Commission recently established measured savings as the default program design for California energy saving programs.[2] Establishing a HOMES measured savings program will help to transform residential energy savings programs, consistent with other programs across the state, to achieve long-term market transformation.

The Measured Approach Supports Grid Resiliency: The stress on California's electric system is driven in large part by cooling during extreme heat events, which are becoming more common as a result of climate change. Making homes more energy

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possibility of the "situation where CEC does not incorporate/braid HOMES program funding into the EBD Direct Install Program" (p.4). In addition, CEC notes that states "can choose to set rebate values by...paying a portion of the project cost" (p.4).

[2] California Public Utilities Commission, "Decision Authorizing Energy Efficiency Portfolios for 2024-2027 and Business Plans for 2024-2031," p. 73-76, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M512/K907/512907396.PDF

efficient can reduce the overall energy demand and is a complement to other actions California is taking to reduce the risk of electricity shortages. The measured approach, along with associated tools and software, can also provide a foundation for demand response, thereby helping to reduce peak demand, improve grid reliability, and reduce infrastructure costs.

- The measured pathway can thus be a downpayment on the robust participation of residential energy efficiency in virtual power plants (VPPs), serving as a critical component towards maintaining and improving grid reliability and affordability.

Relying on a Drafting Error Creates Regulatory and Legal Risk: The HOMES Measured approach in the IRA includes a well-known drafting error regarding the maximum rebate amounts for the measured approach that could vastly increase customer incentives in ways not anticipated by Congress.

- In the HOMES language, the words "the lesser of" were unintentionally left out of the measured path, though they were included in the modeled path, accidentally removing the cap from the measured rebate. These approaches have always been proposed by Congress as equivalent pathways with the same caps.
- The CEC proposal would build on this error to provide rebates as a percentage of cost – not energy savings – which is contrary to the intent of Congress and could cause legal and regulatory delays, and/or require dramatic programmatic changes if the drafting error is fixed in subsequent legislation. This could impact the speed at which Californians receive IRA HOMES funding and slow progress on achieving the state's rightfully ambitious climate goals.

The Measured Approach Achieves the Same Goals as EBD: A measured savings approach to the HOMES program would accomplish many of the same objectives as the EBD program – targeting households and communities with the greatest savings potential, driving down project costs, and providing a whole-home approach to decarbonization. Rather than relying on program implementors to manage and trade-off all of these factors, the measured approach allows contractors and aggregators to handle these functions, driven by market incentives to achieve the highest energy savings at the lowest cost.

- To avoid additional administrative costs, the CEC can utilize the same implementer for the HOMES and EBD Programs; however the HOMES Program will need to be separate from the EBD to ensure that it is a measured savings program.

Measured Programs Can Cover 100% of Project Costs: The HOMES measured savings programs should still strive to cover 100% of project costs for low-income households by setting appropriate incentive rates, including bonus incentives under the *time, location, and greenhouse gas incentive* provisions of the HOMES program. The CEC should deploy the initial HOMES funding to optimize the incentive rate, as described below.

Leverage HOMES Phase 1 Funding to Optimize Program Design: The CEC should leverage the initial tranche of HOMES program funding (25%) to gather data on average project costs and energy savings for low-income households.

- The CEC should leverage the existing measured savings programs run, including those run by 3C-REN, PCE, MCE, and SCP to rapidly deploy HOMES program funding using existing program infrastructure, as the existing pay-for-performance programs are largely HOMES compliant.
- This initial Phase 1 program would provide comprehensive data to the CEC on low-income home retrofits to calibrate incentives based on market comparables of low-income project costs as well as energy savings. This analysis could also incorporate time, location, and greenhouse gas factors to design rates that cover 100% of the project cost for low-income households, while also optimizing for the lowest-cost energy savings.

Using this data, CEC can set incentive rates for Phase 2 funding to ensure that the rebates are sufficient to cover 100% of project costs for low-income households; this data will also be valuable to support the EBD program administrators in implementing mechanisms to control costs, such as cost analysis, competitive bidding, and standard pricing for eligible measures.

Thank you for the opportunity to comment on these important programs. The Flex Coalition companies stand ready to help make the program a success for the CEC and California.[3] We look forward to working together to ensure the success of the HOMES programs in support of California's most deserving households.

Sincerely,

David Hunter, Ph.D.
Director
The Flex Coalition
www.FlexCoalition.org

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[3] See letter from Flex Coalition to CEC, October 12, 2023, CA-Flex-Coalition_Aggregators_Allies-State-Sign-On-Letter-for-the-HOMES-Rebate-Program-Measured-Savings-Path.pdf (flexcoalition.org)