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Document Title:	Greenhouse Gas Reduction Fund Expenditure Record_Demand Side Grid Support Program_FY 2025-2026
Description:	Expenditure Record for the Demand Side Grid Support (DSGS) Program, explaining how funds from the Greenhouse Gas Reduction Fund (GGRF) will be used for fiscal year 2025-2026.
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Greenhouse Gas Reduction Fund: Expenditure Record

California Energy Commission
Demand Side Grid Support Program

Authorizing legislation: Assembly Bill (AB) 205 (Stats. 2022, ch. 61) authorizes the California Energy Commission (CEC) to implement and administer the Demand Side Grid Support (DSGS) Program to incentivize dispatchable customer load reduction and backup generation operation as on-call emergency supply and load reduction for the state's electrical grid during extreme events. Item 3360-001-3228 of the Budget Act of 2024, as amended by SB 108 (Stats. 2024, ch. 35) appropriates to the California Energy Commission $75 million in Greenhouse Gas Reduction Funds (GGRF) for incentives for the Demand Side Grid Support (DSGS) Program.

Element (1) A description of each expenditure proposed to be made by the administering agency pursuant to the appropriation.

Agency that will administer funding

The California Energy Commission (CEC), with support from third-party administrator, Olivine, Inc.

Amount of proposed expenditure and appropriation reference

The total expenditure is up to $75 million per Section 2.00 (Item 3360-001-3228) of the Budget Act of 2024 as amended by SB 108 (Stats. 2024, ch. 35).

Estimated amount of expenditures for administering agency administrative costs

CEC administrative costs are estimated to be up to 10% of the total budget.

In addition to CEC's administrative costs, GGRF expenditures will include administrative costs for the funding recipients. Limits on administrative costs are specified in guideline language.

Identify how any interest earned on appropriated funds will be used, including any interest earned by third-party administrators

CEC does not have authority to expend earned interest, since GGRF funds for the DSGS program come with a set amount for CEC's expenditure authority. The DSGS program does employ a third-party administrator (Olivine, Inc.), but they are paid for their services only

after those services are rendered. Olivine, Inc. does not earn any interest on appropriated funds.

If applicable, identify laws or regulations that govern how funds will be used

- AB 205 (Stats. 2022, ch. 61) established the DSGS Program and provides direction on how the funds will be allocated to recipients, including requirements for incentive eligibility and program implementation. All funds will be allocated and managed in accordance with this law.
- AB 209 (Stats. 2022, ch. 251) expanded the eligibility of the DSGS Program to include all energy customers in the state, except those enrolled in demand response or emergency load-reduction programs offered by entities under the jurisdiction of the California Public Utilities Commission (CPUC).
- AB 205, as codified in Public Resources Code (PRC) Section 25792(e) directs the CEC to develop guidelines for the DSGS Program. The CEC adopted the DSGS Program Guidelines, Third Edition, on May 8, 2024. The program guidelines provide further direction on program implementation in alignment with AB 205 (2022) and AB 209 (2022). The DSGS Program Guidelines are available on the DSGS Program website (*https://www.energy.ca.gov/Programs-and-topics/Programs/demand-side-grid-support-Program*).
- The Budget Act of 2024, as amended by AB 157 (Stats. 2024, ch. 994) provides that the funds shall be used for the purpose of facilitating the achievement of reductions of greenhouse gas emissions in this state in accordance with the requirements of Section 39712 of the Health and Safety Code or to improve climate change adaptation and resiliency, or environmental quality and public health, of California's communities, with an emphasis on disadvantaged communities, as defined in Section 39711 of the Health and Safety Code, or low-income households or communities, as defined in Section 39713 of the Health and Safety Code, consistent with Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

Continuation of existing Expenditure Record

This is an update to an existing Expenditure Record for the Demand Side Grid Support Program. The Expenditure Record elements being updated include the following:

- Explanation of how any interest earned on appropriated funds will be handled.
- Load flexibility resources included in description of DSGS resources, due to the launch of DSGS Option 4 ("Emergency Load Flexibility Demand Response Pilot") in 2025.

Project Type(s)

Dispatchable customer load reduction and backup generation operation as on-call emergency supply and load reduction for the state's electrical grid.

Describe the projects and/or measures that will be eligible for funding

Incentives to reduce customer net load during extreme events (as defined in PRC Section 25790.5[b]) achieved through reduced usage or use of backup generation or both.

Intended recipients

PRC Section 25792(a) provides that incentives may be paid to (1) participating individual entities, (2) participating aggregators of multiple energy customers, and (3) participating local publicly owned electric utilities and load-serving entities.

Program structure and process for selecting projects for funding

The DSGS Program provides incentives for reductions in customer net load during extreme events. The CEC adopts guidelines to provide further direction on program implementation pursuant to authorizing legislation. Consistent with the loading order set out in PRC Section 25792(d), dispatch of demand response and renewable and zero-emission resources is prioritized before dispatch of conventional resources. Incentives are paid based on measured performance on a first-come, first-served basis, subject to budget availability.

Element (2) A description of how a proposed expenditure will further the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, including, but not limited to, the limit established under Part 3 (commencing with Section 38550) and other applicable requirements of law.

How the expenditure is consistent with the Investment Plan and the Scoping Plan

The Budget Act of 2024, as amended by AB 157, provides that the CEC may also comply with the requirements of paragraph (2) of subdivision (a) of Section 16428.9 of the Government Code by describing how each proposed expenditure will improve climate change adaptation and resiliency, or environmental quality and public health, of disadvantaged communities or low-income households or communities.

Expenditures will support climate change adaptation and resiliency by incentivizing reductions in customer net load during extreme events, which helps keep the lights on for the entire state, including disadvantaged communities, and low-income households and communities. An "extreme event" is defined in PRC Section 25790.5 as either "(1) An event occurring at a time and place in which weather, climate, or environmental conditions, including temperature, precipitation, drought, fire, or flooding, present a level of risk that would constitute or exceed a one-in-ten event, as referred to by the North American Electric Reliability Corporation, including when forecast in advance by a load-serving entity or local publicly owned electric utility;" or "(2) An event where emergency measures are taken by a California balancing authority, including when forecast in advance by the California balancing authority."

Consistent with the loading order set out in PRC Section 25792(d), dispatch of demand response and renewable and zero-emission resources is prioritized before dispatch of conventional resources.

As stated in the 2022 CARB AB 32 Scoping Plan (p. 198), "the state's electricity grid is expected to be stressed further in the coming years by heat waves, drought, wildfires, and the growing intermittent power supply from renewables. California must accelerate deployment of diverse clean energy resources to maintain reliability and affordability in the face of climate change."

Element (3) A description of how a proposed expenditure will contribute to achieving and maintaining greenhouse gas emission reductions pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

Describe how expenditures will facilitate the achievement of GHG emission reductions in the State

The Budget Act of 2024, as amended by AB 157, provides that the CEC may also comply with the requirements of paragraph (3) of subdivision (a) of Section 16428.9 of the Government Code by describing how each proposed expenditure will improve climate change adaptation and resiliency, or environmental quality and public health, of disadvantaged communities or low-income households or communities.

Expenditures will support climate change adaptation and grid resiliency by incentivizing reductions in customer net load during extreme events, which helps keep the lights on for the entire state, including disadvantaged communities, and low-income households and communities. Dispatch of demand response and renewable and zero-emission resources is prioritized before dispatch of conventional resources.

Explain when GHG emission reductions and/or co benefits are expected to occur and how they will be maintained

The DSGS Program launched in August 2022. Benefits will be realized immediately as resources participate in the DSGS Program and provide net load reduction during the DSGS "program year," which runs from May 1 through October 31 each year. DSGS program events are correlated with evening peak hours during which GHG emissions are at the highest level. Thus, net load reduction achieved by DSGS resources during a program event directly help avoid emissions on the margin.

Incentives are paid after performance of net load reduction is demonstrated, so it is expected that benefits will be maintained while funding is available.

Element (4) A description of how the administering agency considered the applicability and feasibility of other non-greenhouse gas reduction objectives of Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

Expected co-benefits, particularly environmental, economic, public health and safety, and climate resiliency

Incentivizing net load reduction through the DSGS Program will help to reduce the likelihood of electric grid outages during extreme events. Demand response, load flexibility, and battery energy storage systems participating in the DSGS Program are expected to reduce the need for less efficient natural gas-powered plants and to reduce associated emissions of GHGs and criteria air pollutants.

Supporting electric grid reliability in the face of more frequent and intense heat waves, wildfires, and droughts directly supports climate resiliency for California. However, electric reliability is also a major economic and public health concern. Businesses and their employees rely on electricity to earn money and may be forced to close during outages. Access to air conditioning during these events is critical to public health. Electric outages may force other services to close, including health care, childcare, and public services.

How the project will support other objectives of AB 32 and related statutes

The DSGS Program will support other objectives of AB 32. For example, demand response, load flexibility, and battery storage providing net load reduction through the DSGS Program will reduce GHG emissions in a manner that helps to maintain electric system reliability and supports California's efforts to improve air quality. The increased utilization of demand response resources and VPPs through the DSGS Program helps to improve and modernize California's energy infrastructure, without the addition of emissions-intensive generation sources such as natural gas-powered plants.

Percentage of total funding that will be expended for projects that are located in and benefit priority populations[1] per CARB guidance

The administering agency did not include a minimum target to locate projects within and provide benefits to priority populations, but some projects may meet the criteria for providing benefits to priority populations.

[1] Priority populations include residents of: (1) census tracts identified as disadvantaged by California Environmental Protection Agency per SB 535; (2) census tracts identified as low-income per AB 1550; or (3) a low-income household per AB 1550. See Section VII.B Funding Guidelines for more information on the definitions of priority populations.

Describe the benefits to priority populations per CARB guidance

These expenditures will incentivize reductions in customer net load during extreme events, which helps keep the lights on for the entire state, including priority populations, and may help reduce the need to run conventional resources.

Explain strategies the administering agency will use to maximize benefits to disadvantaged communities

The DSGS Program will incentivize reductions in net customer load during extreme events, which will help to reduce the likelihood of electric grid outages throughout the state. By prioritizing the use of demand response, load flexibility, and renewable and zero-emission resources, the DSGS Program may help reduce the need to run conventional resources.

Explain how the administering agency will avoid potential substantial burdens to disadvantaged communities and low-income communities or, if unknown, explain the process for identifying and avoiding potential substantial burdens

The DSGS Program does not incentivize the purchase of new combustion resources and limits dispatch of combustion resources to only as a last resort and only if authorized to operate under a Governor's executive order.

Element (5) A description of how the administering agency will document the result achieved from the expenditure to comply with Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

How the administering agency will track / report progress to make sure projects are implemented per requirements in statute and CARB guidance

CEC staff, along with the third-party administrator of the DSGS Program, will track progress through active engagement with Program participants, and will require participants to provide reports on enrollment and performance. Incentives are paid after participants submit claims and program staff verify net load reduction. In addition, the CEC will conduct periodic technical reviews of participation pathways and evaluate the overall efficacy of the DSGS Program.

Describe the approach that will be used to document GHG emission reductions and/or other benefits before and after project completion

The CEC will coordinate with CARB to document GHG emission reductions and/or other benefits before and after project completion.

Type of information that will be collected to document results, consistent with CARB guidance

The CEC will coordinate with CARB on the type of information that will be collected to document results. The CEC expects to collect data to calculate the reductions in customer net load during extreme events, the types of technologies participating, and any other data necessary to accurately track the impact of participating resources as described in the DSGS Program Guidelines, and as specified in CARB guidance.

How the administering agency will report on program status

The CEC will report to CARB consistent with CARB guidance. The CEC will provide regular updates on the Program, including expenditure amounts, reductions in customer net load during extreme events, and other benefits, as applicable. Reports will also include information on project outcomes consistent with CARB guidance.