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To: California Energy Commission

From: City of Palo Alto Utilities

Date: August 16, 2011

Re: Comments on the Draft Staff Report “Achieving Cost-Effective Energy Efficiency for California 2011-2020” (Docket number 11-IEP-1F)

City of Palo Alto Utilities (CPAU) appreciates the opportunity to comment on the CEC Draft Staff Report “Achieving Cost-Effective Energy Efficiency for California 2011-2010” (July 2011). Specially, CPAU would like to comment on the following three areas:

- (i) Cost of energy efficiency (EE) has steadily increased in the past few years.*
- (ii) The question of whether to adopt net EE goals versus total market gross goals needs to be addressed within the next six months prior to the next round of EE target setting for POU.*
- (iii) Assistance to POU on the use of the selected EE potential model for the next round of EE target setting.*

At the August 11 workshop, NRDC repeatedly quoted the cost of EE at 2¢/kWh. This is a misleading number. Based on the SB 1037 reports submitted by CPAU in the past three years, the levelized cost of EE, as expressed by the total utility cost divided by present value of net lifecycle EE savings, has increased steadily, from 2.9¢/kWh in 2008 to 6.4¢/kWh in 2010. Looking forward, as new lighting standards take effect and other low-cost efficiency measures reach saturation, the cost of EE will continue to increase. While CPAU expects EE to remain a cost-effective alternative compared to other supply-side resources, it is no longer the case that EE only costs 2¢/kWh.

The Draft Staff Report raises the question of whether or not to allow POU to “[abandon] the use of net-to-gross ratios in favor of total market gross goals” (p.41) as currently adopted for the IOU by the CPUC. CPAU supports the use of the total market gross savings as the metric for EE target setting and reporting, as this includes all efficiency savings including savings from free-riders. The use of net-to-gross ratios to adjust savings has been a difficult concept to explain to the POU’s governing boards. There are also valid reasons to suggest that it is not a useful concept when looking at total, statewide energy and greenhouse gas reduction targets. However, for clarity of its reporting requirements, the CEC will likely need to provide suggestions on how to count EE for the purpose of load forecasting if the total market gross metric is adopted, and it would be helpful to understand the methodology employed by the CPUC for integrating projected EE savings into the IOU’s load forecast. Given that the next update of EE potential/goals needs to be submitted to the CEC by Q1 CY2013, the decision of whether or not to switch from net EE savings to total market gross savings needs to be made Q1 CY 2012 in order to be incorporated in the future EE potential model.

The attachment to the Draft Staff Report, “KEMA’s Report on POU’s Revised Energy Efficiency Potential and Targets”, pointed out a number of issues with the modeling tool CalEERAM, such as the projection of economic potential based only on cost effectiveness without additional screening, and the analysis of baseline energy use. Given the tight timeline between model development and adoption of the EE targets by the POU’s governing boards, there was little time for POU staff to fully digest the model and prepare accurate utility-specific inputs.

For future iterations, City of Palo Alto will try to work with the other POU’s and the POU consultant/contractor to ensure that KEMA’s comments are taken into account and adequate time is allowed for the modeling process. Additionally, it would be helpful for the POU’s to be able to use CEC as a resource when modeling assumptions for their EE target-setting process, e.g. discount rate assumption, market potential to economic potential ratios for the IOUs, etc. It is important to keep in mind, however, that any model has limitations, especially when one is pushing the boundary scenarios. For example, increasing measure incentives does not result in proportionate increase in measure adoption. The determination of the market potential is highly dependent on multiple assumptions in the model that are somewhat arbitrary and has not been verified against field data.

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