



# California Technical Position Paper 13

## Custom Policy Initiative: Recommendations and Next Steps

March 29, 2024

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## AFFIRMATION

This Technical Position Paper was affirmed by the Cal TF PAC on March 27, 2024.

## ACKNOWLEDGMENTS

Cal TF Staff would like to acknowledge the following individuals for their contributions to this TPP.

- Custom Policy Subcommittee Participants

## CONTENTS

1. Overview and Summary of Cal TF PAC-initiated Custom Policy Initiative .....	1
2. Custom Projects – Current State .....	5
3. Key Issues Identified and Analyzed by the PAC Custom Policy Subcommittee .....	6
3.1. Key Issue #1: Custom Rules Development and Communication.....	6
Proposal: All Custom CPUC policy, CPUC Staff Guidance, and PA Guidance is public, centralized, statewide consistent, clear, succinct, and applied prospectively. ....	6
3.2. Key Issue #2: Baseline Selection.....	9
Proposal: Implement Recommendations from Cal TF White Paper, Including: Updating ISP Guidance, Maintaining A Statewide Public Baseline Database, Removing the Informal ISP Requirements, and Implementing a Statewide Public Planning Process for Market-Based ISP Research .....	9
3.3. Key Issue #3: Custom Project Review (CPR) Process.....	11
Proposal: Improve the Custom Project Review (CPR) Process.....	11
3.4. Key Issue #4: Influence and Attribution Assessment.....	14
Proposal: Implement Clear, Simple, Specific, Objective Influence Requirements; Assess Free-ridership using Real-Time Ex Post Methods .....	14
4. Next Steps.....	16

## 1. Overview and Summary of Cal TF PAC-initiated Custom Policy Initiative

In Spring 2022, Cal TF Staff reviewed custom program materials and examined data, findings, and recommendations from previous streamlining efforts<sup>1</sup> and evaluation studies to examine opportunities and benefits of the California electronic Technical Reference Manual (eTRM) for custom projects. Cal TF Staff documented its findings and recommendations in a [Cal TF Memo](#)<sup>2</sup> and discussed custom improvement opportunities with Cal TF Members, Policy Advisory Committee (PAC) Members, and Custom Stakeholders.

### Cal TF Custom Initiative

In Fall 2022, Cal TF initiated the Custom Process Improvement Initiative (“Custom Initiative”) and launched the Cal TF Custom Subcommittee to convene custom stakeholders to collaboratively identify and examine barriers to energy efficiency (EE) and develop solutions to enable the cost-effective acquisition of EE savings and benefits through custom measures.

In April 2023, the Cal TF and PAC affirmed the [Custom Initiative Workplan](#), which summarizes challenges and strategies and frames Cal TF’s custom-related efforts. Cal TF Staff facilitates Custom Initiative activities through the Custom Subcommittee, which includes more than 100 Custom Stakeholders,<sup>3</sup> and hosts and documents Custom Initiative activities on the [Cal TF Custom Initiative SharePoint Site](#).

The Custom Initiative focuses on custom measures that follow the calculated savings approach and are subject to the Custom Projects Review (CPR) process. The Custom Initiative does not include Normalized Metered Energy Consumption (NMEC) projects or Strategic Energy Management (SEM) projects since NMEC and SEM have distinct regulatory requirements, calculation approaches, and project development and review processes and since Cal TF stakeholder concerns concentrated on calculated custom measures.<sup>4</sup>

### Cal TF Custom Policy Initiative

In June 2023, several PAC Members expressed concern that organizing, streamlining, and creating templates to clarify and standardize the custom project development and review process would be insufficient to address barriers identified by Program Administrators (PAs) and

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<sup>1</sup> Analysis included review of the 2022 CPUC Process Study of the IOU’s Custom Program Due Diligence Reviews, previous years’ ESPI Memos and Worksheets, and materials from previous CPUC CPR stakeholder engagement activities.

<sup>2</sup> Cal TF Staff. 2022. “Leveraging the eTRM for the Custom Projects.” Memorandum submitted to Cal TF PAC.

<sup>3</sup> Participating stakeholders include custom project developers and implementers, technical reviewers, Staff from all PAs, CPUC Staff.

<sup>4</sup> Commission Staff has developed distinct guidance documents for NMEC and SEM programs and projects. Despite differences in regulatory requirements, calculation approaches, and project development and review processes, some stakeholders express concern that Commission Staff guidance for NMEC and SEM is increasingly similar to Staff’s custom project guidance.

implementers to develop and secure timely and cost-efficient review and approval of custom projects.

In response, Cal TF Staff initiated a PAC-led Custom Policy Subcommittee of PAC members and PAs (including RENs and CCAs)<sup>5</sup> to identify “custom policy” issues they believed needed to be addressed to improve the custom process and outcomes. The Custom Policy Subcommittee members initially identified nine issues for review.<sup>6</sup> Through three Subcommittee meetings in 2023, the members prioritized the four most impactful issues and began shaping potential solutions to address these key issues:

- **Key Issue #1: Custom Rules Development and Communication** – Disparate, complex, and onerous regulatory rules, practices, and documentation requirements and the “case-law” approach to governing customer, project, and measure eligibility creates confusion, uncertainty, and risk and creates a high barrier to entry for customer and market participants as stakeholders struggle to understand current rules and requirements. Costly and duplicative efforts by custom stakeholders to track, interpret, and communicate custom rules is also a wasteful and unnecessary use of ratepayer funds that may also result in statewide inconsistencies.
- **Key Issue #2: Baseline Selection** – The complex and burdensome baseline selection process, including requirements to develop standard practice baselines for individual custom projects and/or to develop Industry Standard Practice (ISP) studies as part of individual project development, overburdens the project development budget and diminishes a customer’s participation opportunity through an imposed baseline unrelated to the customers’ own conditions or practices.
- **Key Issue #3: Custom Projects Review (CPR) Process** – The intervention of regulatory reviews and development of rules and requirements deep into custom project development has added procedural steps that add time delays and administrative cost and has increased customer uncertainty and risk while not achieving CPUC’s objectives when establishing the Ex Ante review process in 2011.<sup>7</sup>
- **Key Issue #4: Influence and Attribution Assessment** – Onerous and unspecific requirements to demonstrate influence at the customer and project level and the ability of PA or Commission Staff to reject a customer’s participation in the programs based on subjective assessments *even after significant customer investment in program requirements and processes* deters participation from customers and implementers due to heightened costs, uncertainty, and risk. Individual projects may be subject to free-

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<sup>5</sup> Representatives for Bay Area REN (BayREN), Southern California REN (SoCalREN), Tri-County REN (3C-REN), Rural REN (R-REN), and MCE participated in the Custom Policy Subcommittee meetings and/or one-on-one input meetings with Cal TF Staff if they were not able to participate in the large group meetings. Cal TF Staff has also engaged I-REN representatives in January 2024.

<sup>6</sup> The nine initial potential policy issues were: influence and attribution, baseline selection, the Custom Projects Review process, minimum efficiency requirements, guidance clarify and communication, data and documentation requirements, NMEC requirements, and discrepancies in Ex Ante and Ex Post determinations, and challenges in dispute resolution.

<sup>7</sup> CPUC established the Ex Ante Review (EAR) Process, later renamed the Custom Projects Review (CPR) Process with Decision 11-07-030. CPUC objectives and outcomes are described in Section 3.3.

ridership assessment in ex ante and ex post, and assessment methods are subjective and different across ex ante and ex post reviews, suggesting attribution analysis methods are not technically robust in addition to being duplicative.

### **CPUC-Initiated Custom Working Groups**

During the course of the Custom Policy Subcommittee discussions, several participants, including Cal TF Staff, met with Commission Staff to discuss various issues and concerns and proposed solutions. In response, Commission Staff has proactively and collaboratively engaged to help understand and address custom challenges and has initiated two Working Groups to collaboratively address challenges and develop solutions.<sup>8</sup> The Custom Policy Subcommittee wants to acknowledge and thank CPUC Staff for its willingness to listen and lead collaborative and constructive Workshop processes and engage with the ongoing Cal TF Custom Initiative to rapidly and effectively address challenges and barriers facing custom projects in California.

### **Proposed Next Steps**

After further review, discussion, and analysis, Cal TF Staff recommends that the four key issues identified by the Custom Policy Subcommittee can, at this point, be addressed in whole or in part through the ongoing Cal TF Custom Initiative.

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<sup>8</sup> The Custom Policy Review (CPR) Continuous Improvement Initiative, announced in January 2024, and the Project Feasibility Study (PFS) Working Group, initiated in January 2024.

Table 1 (next page) summarizes the Custom Initiative efforts that Cal TF Staff expects will achieve substantial improvement for each issue.

In addition, Cal TF's 2024 Custom Initiative will include close collaboration with Commission Staff and engagement with Commission Staff's CPR Continuous Improvement Initiative (CPR Initiative),<sup>9</sup> with possible CPUC "policy" support through CPUC's acknowledgment of the Cal TF Custom Initiative through the upcoming DEER Resolution process.

Should this approach prove to be unsuccessful in accomplishing the goal of improving the custom process, the Cal TF PAC, with input from all PAs, can work together to seek more explicit changes to Commission policy through more formal regulatory advocacy approaches.

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<sup>9</sup> CPUC Staff and Consultants released the Draft Workplan on February 29, 2024 and hosted a public workshop to discuss the workplan on March 12, 2024. Cal TF Staff provided comments on the workplan, including key areas for coordination with the ongoing Cal TF initiative, and attended the workshop.

Table 1: Summary of Cal TF Custom Initiative Activities to Address Key Issues

Key Issue	Cal TF Custom Initiative Activity That Can Help Address Issue
<p>1. Custom Rules Development and Communication</p>	<p>Consolidate, Organize, and Clarify all Custom Rules (including CPUC Policy, Staff Guidance, and Practice) into a Single Custom Rulebook with a Consistent Updating Process, and Develop Supporting Statewide Templates to Improve Clarity and Consistency in Custom Project Requirements and Packages.</p> <p>Cal TF will complete this work as part of the <b>Custom Rulebook</b> activity in the Cal TF 2024 Business Plan with support through the CPR Initiative.</p>
<p>2. Baseline Selection</p>	<p>Collect, Organize, and Summarize All Applicable ISP and Baseline Studies; Update and Consolidate ISP Guidance into the Custom Rulebook; and Propose Forward-Looking, Collaborative Planning Process for all Future ISP Studies.</p> <p>Cal TF will work with CPUC Staff and Custom Stakeholders to implement recommendations described in the <b>TF-affirmed ISP White Paper</b>. Table 2 summarizes ISP White Paper recommendations.</p>
<p>3. Custom Projects Review (CPR) Process</p>	<p>Improve the CPR Process through Collaboration and Engagement with the CPR Initiative and Using Clear Benchmarks to Measure Success.</p> <p>Cal TF Staff is engaged in the CPR Initiative and will work with CPUC Staff and Custom Stakeholders to develop solutions.</p> <p>Also, through the Custom Initiative, Cal TF will develop statewide resources to streamline project development and review, including:</p> <ul style="list-style-type: none"> <li>• <b>Custom Project Documentation Templates</b> that clarify data and documentation requirements, remove unnecessary or burdensome requirements, support complete and organized project submittals, and streamline quality control and review.</li> <li>• <b>Custom Measure Packages</b> with TF-affirmed, measure-specific guidance on eligibility, technical methods, data requirements, and tools to support accurate and consistent measure development and review for custom measures.</li> <li>• <b>Custom Tool Library</b> of TF-affirmed calculation tools to support accurate and consistent measure and project development and to support streamlined quality control</li> <li>• <b>Baseline Database</b> with complete, organized, up-to-date, and accessible baseline data that custom stakeholders can use to develop and review custom measures.</li> </ul> <p>Cal TF will also work with the PAC and Custom Stakeholders to identify metrics and benchmarks to track success of CPR improvement efforts relative to current CPR performance.</p>
<p>4. Influence and Attribution Assessment</p>	<p>Clarify, Simplify, and “Templatize” Influence Requirements to Ensure Consistent, Objective Assessments and Reduce Cost of Documentation, and Seek Changes to Current Free Ridership Practices and the Application of Free Ridership Determinations.</p>



	<p>Cal TF will complete this work as part of the <b>Custom Rulebook</b> and <b>Custom Templates</b> activities in the Cal TF 2024 Business Plan and with support through the CPR Initiative. In addition, Cal TF Staff will work to socialize, refine, and build support of stakeholders and Commission Staff for effective and significant reform of free ridership determination and application while remaining aligned with the CPUC’s long-standing policy objectives on free ridership. An initial list of Proposed Changes for attribution and free ridership is described further in Section 3.4.</p>
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**2. Custom Projects – Current State**

In California’s ratepayer-funded energy efficiency programs, custom project activity has declined significantly over the past five years. PA Staff analyzed their custom project activity levels and shared that, since 2018:

- PG&E custom project volume has dropped 84%<sup>10</sup>
- SCE custom project volume has dropped 88%<sup>11</sup>
- SDG&E custom project volume dropped 94%<sup>12</sup>
- SoCalGas custom project activity declined 88%<sup>13</sup>

In addition, Cal TF Staff analysis of 2022 reported EE savings claims for programs with custom components found that custom programs are falling far short of savings goals as almost all programs reported savings far below target:<sup>14</sup>

- 17 of 20 electric programs administered by 3P implementers reported less than 50% of goal, and 10 programs reported less than 10% of goal.
- 18 of 24 gas programs reported less than 50% of goal, and 14 programs reported less than 10% of goal.
- Across these programs, custom measures account for less than 20% of the electric savings and less than 10% of the gas savings.
- The custom portfolio still depends heavily on lighting measures, with more than 58% of custom measure savings from lighting measures.

PAs and implementers attribute these downward trends to the cost, complexity, and risk created by the current custom policies, processes, and requirements. In particular, stakeholders confirmed that:

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<sup>10</sup> Fable, S. PG&E. 2023. Email communication with A. Reynolds. November 11.  
<sup>11</sup> Ritchey, D. SCE. 2023. Email communication with A. Reynolds. October 16.  
<sup>12</sup> Wang, J. SDG&E. Email communication with A. Reynolds. November 2.  
<sup>13</sup> Chi, W. SoCalGas. Email communication with Arlis Reynolds. October 29. Custom project activities include initial customer and site surveys, PFS development, PA Technical Reviews, and Post-Installation Reports and may span multiple years for a custom project.  
<sup>14</sup> Based on data collected from CEDARS for Program Year 2022.

- Due to the cost and risk to develop a custom measure, implementers have narrowed their focus to pre-approved deemed measures for which savings are pre-approved, requirements are clear, and implementation processes are streamlined with no/little risk of the customer being deemed ineligible;
- Due to the cost and risk to develop a custom measure, some implementers have set a minimum savings threshold for custom projects and will not pursue small projects or projects with small customers for which the savings potential does not balance of costs and risks of custom project development;
- Due to financial risks (as well as relational risks with vendors and customers), longstanding implementers are limiting their activity in the CPUC EE programs.

PAC Members shared concerns about the diminishing perception of energy efficiency as a viable resource among customers and market actors in California. Despite the state's emphasis on energy efficiency as California's top priority resource,<sup>15</sup> customers and market actors face complex and onerous participation rules, burdensome documentation requirements, lengthy review and approval processes which carry financial uncertainty even beyond project installation. These challenges contribute to a diminishing preference for energy efficiency compared to other clean energy incentive programs or traditional energy resources.

Further, PAC Members note that the four key issues (see Table 1) identified by the Policy Subcommittee as the primary challenges driving down custom participation and savings focus on the accounting of *net savings* rather than *gross savings*. The accounting of net savings, or what fraction of the gross savings should be considered incremental or attributed to the state's energy efficiency programs, is a policy construct so complicated that its assessment is limiting the achievement of gross savings, which the state relies on to achieve affordable decarbonization.

### **3. Key Issues Identified and Analyzed by the PAC Custom Policy Subcommittee**

For each issue identified by the Custom Policy Subcommittee, the Custom Policy Subcommittee 1) identified the challenges created by each issue, 2) summarized current policy and practice, 3) proposed actions that Cal TF can take to help address the issue, and 4) provided recommendations that may help to address and resolve the issue.

#### **3.1. Key Issue #1: Custom Rules Development and Communication**

**Proposal: All Custom CPUC policy, CPUC Staff Guidance, and PA Guidance is public, centralized, statewide consistent, clear, succinct, and applied prospectively.**

##### **Rationale**

The EE programs are intended to spur customer and market action to identify and develop energy efficiency projects. Complexity and uncertainty deter customer and market participation,

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<sup>15</sup> California Energy Commission (CEC) and California Public Utilities Commission (CPUC). September 21, 2005. *Energy Action Plan II, Implementation Roadmap for Energy Policies.*

especially among stakeholders less aware, able, or inclined to engage in EE efforts. The rules, requirements, and processes governing the custom measure and project development should be clearly and simply stated and consistently applied for customers and contractors who engage with the custom program.

### **Current Policy/Practice**

Documenting Policy/Guidance – Cal TF Staff attempted to identify and compile all custom-related policy and guidance resources and found that:

- There is no single, centralized, up-to-date resource to describe, understand, and reference the policies and guidance that govern the development, review, and approval of custom measures/projects. Rather, policy and guidance is spread across many different resource types including state legislation, CPUC Decisions and Resolutions, CPUC Guidance Documents and Memos, CPUC-Issues Early Opinions and Project Dispositions, PA-specific guidance documents and resources, and even the meeting notes and ad hoc emails between CPUC and one or more stakeholders.
- Among resources that contain relevant policy/guidance, many cannot be shared with stakeholders due to the inclusion of protected customer information.
- Among resources that contain relevant policy/guidance and do not have data privacy restrictions, many were still not publicly accessible – and therefore, not available to stakeholders statewide.
- Custom guidance resources were hosted in at least twelve unique locations in addition to the CPUC Proceedings that stakeholders must follow to track relevant CPUC Decisions, Resolutions, and Rulings. Among these twelve locations, only eight were publicly accessible.
- Different versions of resources exist in different locations – it is difficult for stakeholders to know which is the latest version and/or whether the latest version is up to date.
- Specific policies or guidance are described differently, and sometimes contradictory, in different resources – it is difficult for stakeholders to understand which resource contains the correct policy or guidance.
- CPUC hosts a webpage for custom guidance documents.<sup>16</sup> However, the webpage does not include all documents/resources that contain relevant policies and guidance, and several of the posted documents are out of date with current policy.

Communicating Policy/Guidance – Rather than communicating publicly or through forums accessible to stakeholders statewide, CPUC Staff typically communicate guidance to one or more PAs and then relies on each PA to share information with their stakeholders.

Updating and Maintaining Policy/Guidance – As noted above, many existing custom resources are out of date with current policy/guidance, and it is difficult for stakeholders to know which documents are and aren't current and whether they include the most recent guidance or

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<sup>16</sup> CPUC: Custom Projects Review Home Page: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/energy-efficiency/custom-projects-review>

disposition outcomes. Commission Staff and PAs update guidance documents and/or create companion guidance on a rolling basis. There is no formal process or schedule for updating Custom Guidance, incorporating new policy/guidance, or communicating changes to statewide stakeholders.

### **Cal TF Custom Initiative Activities That Can Help Address Issue**

- [Custom Resource Library](#): In 2023, Cal TF Staff compiled a public repository of all custom guidance documentation on the Custom Initiative SharePoint site and is working to improve organization, navigation, searchability and other factors to support stakeholder access to and understanding of custom guidance.
- **Custom Rulebook and Templates**: In 2024, Cal TF will consolidate all custom rules into a single Custom Rulebook, identify points of confusion and/or conflict, and work with stakeholders, including Commission Staff, to clarify rules where needed. Cal TF will also develop a set of statewide templates that help streamline and “templatize” custom requirements and project packages while structuring measure and project data to facilitate dashboards for more real-time custom activity tracking and analysis.

### **Proposed Improvements**

- ***Establish Clear Policy, Guidance Upfront; Follow Established Guidance Until Changes Are Made through Formal Process***
  - All Custom Policy and Guidance is statewide consistent, consolidated, public, centrally located and maintained, well-organized, and succinct.
  - CPUC Review/Approve Custom Measure Packages and Custom Tools to support clear, standardized measure-specific guidance.
  - CPUC Staff and PA Guidance, Memos, Dispositions reference specific policy contained within the consolidated Custom Rulebook.
  - Project Dispositions are used only for project-specific feedback; any generally applicable guidance must be added to the Custom Rulebook to apply more broadly.
  - Engineering approach/judgment of Implementers and/or PAs governs unless approach includes engineering errors or clearly contravenes existing Custom policy and/or prior, public Staff Guidance.
- ***Implement Changes at Regular Intervals and Apply Prospectively***
  - The Custom Rulebook will be updated at specific, regular intervals (not on a rolling basis) with appropriate lead time for PAs and implementers.
  - Any new statewide guidance is applied prospectively only.
- ***Statewide Stakeholder Engagement and Communication***
  - Updates to the Custom Rulebook includes a transparent stakeholder input process (e.g., to collect input on needed clarifications and to collect input on draft documents.)
  - CPUC Staff will communicate policy and guidance updates/interpretation statewide (vs. relying on PAs to interpret and communicate separately).

## 3.2. Key Issue #2: Baseline Selection

### **Proposal: Implement Recommendations from Cal TF White Paper, Including: Updating ISP Guidance, Maintaining A Statewide Public Baseline Database, Removing the Informal ISP Requirements, and Implementing a Statewide Public Planning Process for Market-Based ISP Research**<sup>17</sup>

#### **Rationale**

- Developing ISP Studies is a significant time and cost investment, that often outweighs the use and value of the study. Cal TF White Paper analysis estimated that the cost alone (not including indirect costs) of informal ISP studies exceeds the incentive for more than 80% of custom measures.
- The standard practice baseline requirement creates an inherent disadvantage for “lagging” customers whose typical action is below the industry standard practice.
- Standard Practice baseline, by definition, does not represent a specific customer’s baseline and, thus, does not support estimation of a specific customer’s actual energy efficiency impacts. The requirement to use a non site-specific “standard practice” baseline for custom measures, *for which every other aspect of measure development is site-specific*, creates confusion among customers and contractors (who are interested in the customers’ actual savings). Implementers often calculate savings in multiple ways, using the customers’ existing conditions baseline to estimate actual savings to the customer – and again using a standard practice baseline to satisfy program requirements.
- Confusion, costs, time delays and risks associated with the ISP process and requirements are deterring customers, contractors, and implementers from participating in the programs.

#### **Current Policy/Practice**

In D.16-08-019, the CPUC adopted “a default policy for an existing conditions baseline with exceptions, consistent with AB 802’s direction,” and Table 1 of that Decision clarifies the baseline definition based on Alteration Type, Delivery, Savings Determination, and Measure Application Type.<sup>18</sup>

On October 18, 2018, the Commission issued Resolution E-4939, which led to significantly increased staff guidance and resulting complexity around baseline determinations. Resolution E-4939 adopted a new “standard practice baseline” definition, new baseline selection process, and adopted a 5-page “Standard Practice Baseline and Baseline Selection Guidance Document” while also referencing a separate guidance document in development by CPUC Staff. E-4939 also authorized CPUC Staff to update the guidance “when clarification is

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<sup>17</sup> Some Subcommittee members prefer an effort to eliminate all standard practice assessments and default to existing conditions baseline for all existing buildings and code baseline for all new buildings.

<sup>18</sup> CPUC Decision 16-08-019. Section 3.5 (page 30) and Table 1 (page 45). In Table 1, “Standard Practice” baseline applies only for Normal Replacement measures in “Non-building projects, including industrial and agricultural processes.”

necessary” following a specific process and no more than once annually. The current Guidance Document (published April 2021) is 48 pages and incorporates multiple rounds of revisions since the E-4939 guidance was established.<sup>19</sup>

The Cal TF ISP White Paper summarizes current practices that stakeholders agree need to be improved. These practices and the recommended improvements are listed in Table 2 and detailed in the ISP White Paper.

Table 2: Summary of Current Practice Findings and Recommendations for Improvement

#	Current Practice	Recommendation
1	ISP Guidance is Complex, Unclear, and Inconsistently Interpreted; Additional Guidance and Clarifications Are Not Consistently Accessible to All Stakeholders	Update, Clarify, and Simplify ISP Guidance, and Provide Means for Ongoing Updates, Clarifications, and Training
2	Incomplete and Out-of-Date Central Repository and Limited Accessibility of Market-Based and Other ISP Studies and Baselines:	Create a Central, Public, Searchable Database of Market-Based ISP Studies and Approved Baselines with Key Data Including Date of Issuance, Applicability, and Effective Dates
3	No Consistent Format or Data in ISP Studies	Establish Consistent Format and Data Requirements for ISP Studies to Clarify Baseline Definition and Applicability
4	No Coordinated, Public Planning Process for Market-Based ISP Studies	Develop Statewide Market-Based ISP Study Public Planning Process
5	Most Informal ISP Studies Exceed the Cost of the Custom Project Incentive	Remove the Informal ISP Study Requirement for All Custom Measures OR for Custom Measures Smaller Than 1000 MWh or 100,000 Therms or With Incentives Less Than \$100,000 (Tiered Baseline Approach)

### Cal TF Custom Initiative Activities That Can Help Address the Issue

In 2023, Cal TF developed the ISP White Paper through a Cal TF Stakeholder Working Group, collected existing baseline studies from multiple sources, and began the process of organizing and summarizing each study in Baseline Database. Cal TF Staff will work with Commission Staff to update the Commission’s ISP Guidance and incorporate ISP White Paper recommendations, which include a proposal for initiating a forward-looking, collaborative, ISP Study Planning Committee. Other recommendations that Cal TF will work with stakeholders to implement are included in Table Table 2 (above).

To further examine existing baseline policy, Cal TF Staff are 1) researching baseline protocols for other EE portfolios and clean-energy resources and 2) examining the relationship between baselines used to estimate savings from the Codes & Standards program and the EE programs (e.g., to avoid potential for double-counting).

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<sup>19</sup> CPUC. April 2, 2021. *Energy Efficiency Industry Standard Practice (ISP) Guidance: An Update to Guidance for ISP Studies and Custom Project Development*. Version 3.1.

## Proposed Improvements

Some Subcommittee members recommend eliminating standard practice assessments altogether and defaulting to Existing Conditions baseline for all Existing Buildings and Code Baseline for all New Buildings. However, Cal TF Staff believes the ISP White Paper recommendations will make a substantial improvement within existing policy. Baseline improvements should also include:

- Use the following hierarchy to establish baseline for NC, NR, and AR 2<sup>nd</sup> Baseline:
  - Standard Practice Baseline, IF applicable, published in the Cal TF Baseline Database, AND based on approved Market-Based ISP Study based on Market-Based ISP Study
  - Title 24 Building Code and other applicable code/regulations;
  - Existing Conditions;
- Eliminate the requirement to “forecast” standard practice for the end of the remaining useful life of AR measure types.
- Eliminate “Informal” ISP Studies that are not based on rigorous market-assessment.

### 3.3. Key Issue #3: Custom Project Review (CPR) Process

#### **Proposal: Improve the Custom Project Review (CPR) Process.**

##### Rationale

The Custom Policy Subcommittee reviewed the 2011 Decision that established the CPR process including the purpose and intent of the CPR process.<sup>20</sup> The Subcommittee believes the CPR process has not achieved the Commission’s stated objectives to:<sup>21</sup>

- Improve the accuracy and reliability of net efficiency savings and cost effectiveness estimates to meet net efficiency goals.
- Ensure ratepayer funded incentives achieve real net incremental efficiency savings.
- Foster ongoing improvements to the utilities’ review activities.

Rather, the CPR process creates cost, delay, and uncertainty, and Ex Post evaluation outcomes have declined since CPR was implemented.<sup>22</sup> Further:

- PG&E analysis of Ex Post evaluation results showed that CPR-reviewed projects are not performing better in ex post evaluations than projects that did not go through CPR.<sup>23</sup>

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<sup>20</sup> CPUC Decision 11-07-030.

<sup>21</sup> Custom Projects Review Home Page. Last accessed March 21, 2024.

<sup>22</sup> DNV. 2023. *Custom Industrial, Agricultural, and Commercial (CIAC) 2020-21 Impact Evaluation*. Table 3-8: Statewide GRRs were 50% for PY2015, 47% for PY2019, and 48% for PY20-21. Table 3-22: Statewide NTGs were 54% for PY2015, 47% for PY2019, 34% for PY2020, and 39% for PY21.

<sup>23</sup> Westmoreland, J. 2023. Email communication with A. Reynolds. October 29.

- The CPR process adds multiple steps to the critical path of custom project development,<sup>24</sup> including built-in delays that affect all projects regardless of selection, that increase administration costs, delays, and uncertainty to project development.
- Custom Stakeholders describe that the increased cost, time delays, and uncertainty created by the CPR process are significant factors in deterring customer and contractor participation in the custom program and missing known EE opportunities.
- Concerns raised by stakeholders, including CPUC Staff and Consultants 10 years ago, persist despite numerous streamlining and working group efforts, as evidenced in formal CPUC and stakeholder filings as well as informal stakeholder communications.

In addition, the CPR process may have been viewed as providing necessary oversight to IOU Program Administrators (PAs) administration when IOU PAs were eligible for financial incentives based on the performance of their EE programs. The elimination of the ESPI payments beginning in 2021<sup>25</sup> along with the shift to statewide and 3P-administered programs also removed potential conflict of interest concerns in the PA oversight and administration of their programs, reducing the value of the CPR process.

### **Current Policy/Practice**

Commission Decision 11-07-030 established the CPR process in response to poor evaluation outcomes (“gross and net energy efficiency savings on custom projects were dropping from year to year”), high evaluated free-ridership rates (around 40%-50%), and areas where “policy is not appropriately implemented” and “assumptions, methods and data utilized are not always the most appropriate.”<sup>26</sup>

The CPR Process created an additional phase to custom project development through which CPUC Staff could select in-progress custom projects for additional review; request additional project data or analysis; modify a project’s estimated savings or incentive; and approve, reject, or apply additional requirements to the project. CPR outcomes for selected projects are documented in Project Disposition Forms.<sup>27</sup> While originally described as a parallel process, CPR has evolved to be a serial step in the custom project-development cycle as projects must be paused while on the bi-monthly submission list, while waiting for selection, and—if selected—while under review.

Implementing CPR created additional administrative requirements, including:

- Requiring PAs to compile and submit to the CPUC twice each month the list of all custom projects the PAs had reviewed and approved;
- Requiring PAs to hold all PA-approved custom projects until the projects cleared the CPR selection process – this creates delays for all projects regardless of whether they are selected for CPR;

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<sup>24</sup> CPUC: Custom Projects Review Home Page. “CPUC Custom Projects Review Process.”

<sup>25</sup> CPUC Decision 20-11-013.

<sup>26</sup> CPUC: Custom Projects Review Home Page.

<sup>27</sup> NMEC, SEM, and HOPPs review dispositions are advisory-only.



- Requiring PAs to redact all PII from project documentation and transmit all in-process project documentation to the CPUC's Custom Measure Project Archive (CMPA)
- Establishing regular meetings with PA Staff to discuss selected projects.
- Requiring PAs to redact and upload Project Disposition Forms

### **Cal TF Custom Initiative Activities That Can Help Address Issue**

Some Subcommittee members recommend eliminating the CPR process altogether. However, in January 2024, Commission Staff announced it will lead a CPR Continuous Improvement Initiative to “to increase the value of the CPR process to ratepayers and continue to position the CPR as a guidance process for programs as they continue to evolve.”<sup>28</sup> At this point, Cal TF welcomes the opportunity to participate and provide recommendations on how to improve the CPR process to achieve the Commission’s initial intent while reducing the cost, time, and uncertainty resulting from the current CPR process. Cal TF will:

- Work with CPUC Staff to develop a consolidated, easy-to-understand, public Custom Rulebook and establish appropriate maintenance and communication practices (See Custom Rules Development and Communication);
- Work with EE stakeholders to develop statewide templates to clarify, streamline data/documentation requirements and increase statewide consistency; and
- Work with the PAC and Custom Subcommittee stakeholders to identify metrics and benchmarks and track success of CPR improvement efforts relative to current CPR Performance.

### **Proposed Improvements**

- Reduce or eliminate the time delays inherent in the CPR process (e.g., by instituting a truly parallel review process).
- Reduce or eliminate the customer risks by limiting CPR determinations to clear violations of documented, public CPUC policy, including limiting:
  - ability of CPUC Ex Ante reviewers to reject a project based on customer disposition, savings calculation methodology, requirements for additional data/documentation, or other factors;
  - development of new policy or guidance through the Ex Ante process; and
  - ability of CPUC to reject a technically-sound savings estimation methodology.
- Require Ex Post evaluators to apply the policy rules that applied when the projects were developed and approved (i.e., no development of new policy rules through the Ex Post Process, similar to not changing deemed values retrospectively).

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<sup>28</sup> Hoadley, L. 2024. Email communication to Custom PAs and Cal TF Staff. January 24.

### 3.4. Key Issue #4: Influence and Attribution Assessment

#### **Proposal: Implement Clear, Simple, Specific, Objective Influence Requirements; Assess Free-ridership using Real-Time Ex Post Methods**

##### **Rationale**

The Custom Policy Subcommittee identified current practices in applying the Commission's policy on net-to-gross as a significant barrier to achieving greater savings from and diversity of custom projects. Specific issues identified include: high cost of Ex Ante influence documentation (resulting in a minimum project size to warrant the administrative effort); uncertainty and risk for implementers and customers stemming from a subjective standard; and misalignment with state and portfolio policy objectives.

To achieve the state's aggressive (and necessary) GHG reduction and EE goals, we need a policy and programmatic framework that enables the aggressive implementation of all cost-effective energy efficiency. The current framework around program influence commits substantial resources to limit and deter ratepayer and market actor participation in the EE programs rather than encourage and expedite participation. The framework effectively disqualifies customers most likely to take action in an attempt to focus program resources on customers least likely to take action. This approach slows the rate and increases the cost of EE acquisition at a time when we should be maximizing and accelerating impact.

Further, the policy/guidance governing the measurement or assessment of influence is unclear resulting in subjective assessments and potential for significant modification or rejection of customers' projects late in the project development process and after the customer and implementer has invested considerable time and resources into project development, which creates significant financial risk for customers and implementers.

##### **Current Policy/Practice**

There is no clear set of objective criteria or consistent method to identify a "free rider" or to demonstrate influence. Rather, project developers provide detailed narratives of their interactions with customers and compile documentation of customers communication and project development activities. PA and Ex Ante reviewers then review the project documentation to make a judgment about the level of influence. Ex Post evaluators do not consider the detailed project-specific documentation as part of the net-to-gross (NTG) assessment and instead use a standard survey and scoring methodology.<sup>29</sup>

Influence assessments: Custom projects are individually assessed to estimate the "influence" the program activities, including technical or financial assistance, had on a customer's decision to take the energy efficiency action. PA and CPUC reviewers examine influence documentation to assess measure and/or project eligibility. In some cases, reviewers determine there is no influence or that the influence has not been sufficiently demonstrated, and a customer/ratepayer

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<sup>29</sup> DNV. September 20, 2023. *Evaluation, Measurement, & Verification of Program Year 2022 Commercial, Industrial, and Agriculture Custom Projects Work Plan*. Section 4.2. ([weblink](#))

is denied ability to participate in the programs, or a project may be rejected/cancelled with no compensation for customer/contractor efforts.

Documentation requirements to demonstrate influence are onerous and substantially increase the cost of project development and review. Furthermore, customer stakeholders consider current influence assessments to be opaque, subjective, and inconsistent among reviewers as well as with prior and current attribution policies and practices in California and in other jurisdictions.

Free-ridership Evaluations: EM&V contractors conduct Ex Post evaluations to estimate the free-ridership (FR) rate among program participants. Evaluators conduct surveys for a sample of program participants and use a standard algorithm to estimate each sampled participant's FR rate based on their survey responses. These FR surveys are often conducted more than a year after project completion, so the survey respondent may have limited recall on key project-decision making bringing question to the validity of the survey responses.

### **Cal TF Custom Initiative Activities That Can Help Address Issue**

Subcommittee members discussed a proposal to eliminate the application of influence and free-ridership, arguing that—given the urgency of clean energy solutions—EE policy should support the accelerated implementation of energy efficiency by enabling and encouraging participation among those most likely to take action while also allocating equity-focused resources and goals to ensure service to hard-to-reach (HTR) and other underserved customer segments.

While Custom Policy Subcommittee members described multiple barriers and challenges created by the current application of the Commission's long-standing policies on free-ridership, Cal TF Staff believes significant progress can be made through working with Commission Staff to clarify, simplify, and "templatize" influence requirements to support objective analysis and reduce administrative burden of influence documentation. The updated Custom Rulebook will support clarification of the influence requirements, and the Statewide Templates, including a template for demonstrating influence, will help clarify and reduce documentation requirements related to assessing influence and free-ridership.

### **Proposed Changes**

- Create clear, objective criteria and guidance for assessing free-ridership using measurable criteria for free ridership rather than a particular reviewers subjective determination.
- Publicize to customers, implementers, PAs, and all reviewers exactly what documentation and/or showing will be needed to demonstrate influence so the requirements are clear *prior* to the start of the project.
- Eliminate ex ante influence determination and focus ex ante review on complete and correct project documentation.
- Implement real-time EM&V using industry standard methods to assess program-level free-ridership/spillover/NTG such that free ridership determination is completed *no later than* one quarter after the project is complete.

- Apply NTG factors prospectively on a population basis only for those programs on which the evaluated NTG factors are based.
- Use EM&V findings to monitor measure and market progress, improve program design, and support customer targeting and acquisition.

#### **4. Next Steps**

The proposed recommendations and next steps include:

1. Seeking to address key issues through the ongoing Cal TF Custom Initiative, to the extent possible, *without seeking explicit change to Commission Decision language*.
2. Working with Commission Staff and Staff consultants to identify changes that can be made to Staff guidance documents that may be practice rather than formal Commission policy.
3. Seeking explicit acknowledgement through the upcoming DEER Resolution that Commission supports having Cal TF, Commission Staff and Consultants, and other stakeholders work collaboratively under the leadership and guidance of Commission Staff to address and resolve the issues and barriers described in this TPP.

Furthermore, through the Cal TF Custom Initiative—with input from PAC members, other PAs, Cal TF members, and other interested stakeholders—we recommend identifying key metrics, including timelines, to demonstrate improvements to the custom process. If, collectively, we are unable to achieve rapid and measurable progress in the areas described above, the Cal TF Policy Subcommittee can reconvene and consider alternative approaches to addressing the important issues and barriers described in this TPP.