



January 2, 2015

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Thank you for submitting the standardized regulatory impact assessment (SRIA), the summary (Form DF-131), and other related documents for the Proposed Appliance Efficiency Regulations as required in California Code of Regulations, title 1, section 2002(a)(1). Finance agrees that the proposed regulations meet the major regulations threshold based on the impacts calculated.

Based on our understanding, the proposed regulations would prescribe statewide efficiency standards for appliances that consume significant amounts of water or energy, including toilets, urinals, faucets, dimming ballasts, air filters, and heat-pump and water chilling packages. The Energy Commission estimates that the regulations would generate savings (of water, natural gas, and electricity) of \$106 million in 2016 to the commercial and residential sectors, which would increase to \$882 million in avoided costs in 2025 as more efficient appliances are installed. While Finance agrees with the methodology used to derive the impacts under the proposed regulations, the analysis is missing some required elements.

First, there needs to be a section describing both the current situation with respect to efficiency standards (the baseline), and the direct impacts of the proposed regulation. The baseline must include a description of how businesses and individuals are affected by current efficiency regulations, as well as the levels of resources used under the baseline so that percentage improvements can be derived. The direct impacts of the proposed regulations to businesses and individuals would then flow from the changes to the baseline. Assumptions underpinning the direct impacts also need to be explained. For example, the Energy Commission noted that the assumptions regarding the useful life of appliances (and therefore the rate of replacement) came from stakeholder inputs. There may be a large difference between appliance lifetimes from an engineering perspective and from a typical usage perspective. Likewise, efficiency of appliances may differ significantly from potential efficiency under typical usage (i.e. low-flow toilets that users tend to flush twice). The SRIA must provide sufficient information to allow the reader to understand how these assumptions affect the impact analysis.

Second, it appears that the direct costs and benefits of the regulations are improperly aggregated for individuals, and only the resulting net savings are modeled. Additional costs of buying more efficient appliances are relatively small compared to the derived water and energy savings. However, the beneficiaries of gross savings (appliance users) are different from those of efficient appliance spending (appliance manufacturers) and the entities that bear the burden of savings (energy producers) and costs (appliance buyers) are also different. Modeling net savings will fail to capture distributional effects of gross impacts, and the effects of both sides must be discussed in the report.

Regarding the effects on innovation and investment, the SRIA states that the regulations give an advantage to manufacturers of more efficient products, and also states that the proposed regulations are expected to lead to increased industry investment in technology. However, the SRIA contends that the incremental cost to produce more efficient appliances will be small. If research and development is needed to achieve additional efficiency gains, we would expect the direct incremental costs to manufacturers not to be as small as those reported. In addition, these costs are only reported in dollar figures at the aggregate level. It would be useful to report expected product price effects at a disaggregated level. This would help the reader evaluate the possible effect on subsequent consumer adoption/renovation rates.

Energy Commission staff did not select a more stringent level for the analysis of urinal and faucet alternatives, stating that one reason for this was the fact that none were proposed by stakeholders. It is the responsibility of an agency to identify and assess alternatives. The agency may use an alternative identified by a stakeholder, but the absence of suggestions does not absolve the agency of its responsibilities. Finance is available to consult on the design of alternatives to address this deficiency in the SRIA.

Finally, the SRIA should also address any fiscal impacts of the proposed regulations. This includes both the direct enforcement and implementation impacts, but also impacts associated with changing infrastructure needs. For example, low-flow toilets may require different technology in sewage plants. This section should also include a discussion of interactions with other state regulations or policy objectives, such as reducing carbon emissions or lowering pollution.

These comments are intended to provide sufficient guidance outlining revisions needed in this analysis and for future analysis. The SRIA, a summary of our comments, and your responses to them must be included in the submission of your regulatory package to the Office of Administrative Law. If any significant changes to the proposal result in revisions to the economic impacts in the report, the Commission is reminded that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. A copy of the SRIA, Form DF-131, and our comments will be posted on Finance's website as well. Please let us know if you have any questions regarding our comments.

Sincerely,



Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Office of Administrative Law
Mr. Pierre duVair, California Energy Commission