

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**8-13-15
09:48 AM

August 13, 2015

Agenda ID #14211
Quasi-Legislative

TO PARTIES OF RECORD IN RULEMAKING 14-10-003:

This is the proposed decision of Commissioner Michel Peter Florio. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's September 17, 2015 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ DOROTHY DUDA for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:lil

Attachment

Decision **PROPOSED DECISION OF COMMISSIONER FLORIO**

(Mailed 8/13/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Demand Side Resource Programs.

Rulemaking 14-10-003
(Filed October 2, 2014)

DECISION ADOPTING AN EXPANDED SCOPE, A DEFINITION, AND A GOAL FOR THE INTEGRATION OF DEMAND SIDE RESOURCES

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APPENDIX A - April 15, 2015 Post-Workshop Ruling

**DECISION ADOPTING AN EXPANDED SCOPE, A DEFINITION,
AND A GOAL FOR THE INTEGRATION OF DEMAND SIDE****Summary**

This decision establishes a foundation for this proceeding and for the integration of demand-side resources. We first confirm that this proceeding is extensively intertwined with that of Rulemaking (R.) 14-08-013, the Distribution Resources Plan proceeding. We determine that our intention in this proceeding is to focus on the integration of demand-side resources¹ (i.e., collective action to optimize demand-side resources) versus integrated demand-side management (i.e., programs and services offered by the utility to the customer).

In order to set a strong foundation for this proceeding, we adopt a definition of the integration of demand-side resources:

- A regulatory framework that enables customers to effectively and efficiently choose from an array of demand-side and distributed energy resources. The framework is based on the impact and interaction of such resources on the system as a whole, as well as on a customer's energy usage.

We then adopt a goal for the integration of demand-side resources:

- To deploy distributed energy resources that provide optimal customer and system benefits, while enabling California to reach its climate objectives.

This decision also confirms the scope of this proceeding to be broader than originally anticipated in the Order Instituting Rulemaking 14-10-003. As described in this decision, the scope will consider a framework based on the entire energy production and delivery system from the customer side to the

¹ This proceeding uses the same categories of distributed energy resources as those in R.14-08-013. See *February 6, 2015 Assigned Commissioner Ruling in R.14-08-013*.

utility side. The scope of this proceeding will make a determination on how best to source the distributed energy resources needed by the utilities based on the determinations made in R.14-08-013, i.e., value of distributed energy resources. Finally, this proceeding will also consider the issue of localized incentives, which was not anticipated when we established the rulemaking but arose in workshop discussions.

This proceeding remains open to support the development of an end-to-end framework for integrating demand-side resources, including relevant valuation methodologies and sourcing mechanisms.

1. Procedural Background

On October 2, 2014, the Commission approved the Order Instituting this Rulemaking (OIR), which sought to consider the development and adoption of a regulatory framework to provide policy consistency for the direction and review of demand-side resource programs. The intention of the rulemaking is to consider how to best enable the utilities, other administrators, and electric market actors to offer a wide portfolio of demand-modifying technologies best tailored to the specific characteristics of individual customers. Additionally, the proceeding seeks to identify and reduce or eliminate existing barriers to providing customers with tailored demand-side management solutions.

The OIR also identifies the California Long-Term Energy Efficiency Strategic Plan (Strategic Plan) and the 2010-2012 Omnibus Integrated Demand Side Management Process Evaluation (Omnibus Report), two important documents in the development of integration efforts at the Commission. In the Strategic Plan adopted by the Commission in 2008, a chapter dedicated to integrated demand side management emphasizes a dual focus on utilities and customers. The Strategic Plan states that current integration efforts do not

maximize energy savings nor minimize costs of program delivery and that the Commission should integrate demand-side programs within its jurisdiction in order to enable offerings of integrated packages to maximize savings and efficiencies of utility program overhead.² The Omnibus Report, a third-party evaluation of efforts to integrate demand-side management programs, presented several barriers to integration and suggested several recommendations including the need to establish a forum to integrate load planning activities.³

Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCalGas)⁴ (referred to jointly herein as the Utilities) are respondents to this rulemaking. Interested parties were invited to file comments to the OIR on November 7, 2014. Replies to those comments were filed on November 21, 2014.

Following a December 5, 2014 prehearing conference, the assigned Commissioner and Administrative Law Judge jointly issued a Ruling and Scoping Memo (January 5, 2015 Scoping Memo) setting a tentative scope but acknowledging that more information needed to be gathered prior to determining whether the scope of the proceeding should be narrow, e.g., focusing on energy efficiency and demand response only, or broad, e.g., integration of demand-side management into system planning. Hence, the

² Strategic Plan, September 2008 at Chapter 8.

³ OIR 14-10-003 at 9.

⁴ During the prehearing conference, SoCalGas was identified and named as a respondent to this proceeding, correcting an inadvertent omission in the OIR 14-10-003.

Administrative Law Judge facilitated a series of events designed to educate parties on aspects of the proceeding.

Subsequent to two learning sessions held in January and February⁵ and a workshop in March, a Ruling was issued on April 15, 2015 asking parties to provide comments on several aspects of this proceeding. Parties filed comments on May 15, 2015⁶ and reply comments on May 29, 2015.⁷

2. Overview of April 15, 2015 Post-Workshop Ruling

The April 15, 2015 Post-Workshop Ruling provided an overview of the March 11-12, 2015 workshop (March Workshop or Workshop). The objectives of the Workshop were to develop ideas for a) defining the integration of demand-side resources, b) determining the problems with current integration efforts, and c) shaping a goal for integration. The Post Workshop Ruling then posed several questions to the parties, focusing on definitions, a goal, and the

⁵ Learning Session I, held on January 22, 2014, included an overview of outcomes of Commission-regulated integration activities, an overview of related proceedings, current and past integration activities, and a panel on barriers to success. Learning Session II, held on February 20, 2015, included an overview of California climate goals, an overview of out-of-state integrated demand side resource program activities, and a panel discussion on customer needs.

⁶ Parties filing comments are the California Energy Storage Association (CESA), Customer Federation of California (CFC), California Independent System Operator (CAISO), Center for Sustainable Energy (CSE), Karey Christ-Janer, Clean Coalition, EnergySavvy, Environmental Defense Fund (EDF), Local Government Sustainability Environmental Council/San Francisco Bay Area Regional Energy Network (SFBayREN), Marin Clean Energy (MCE), Natural Resource Defense Council (NRDC) jointly with Sierra Club, Office of Ratepayer Advocates (ORA), PG&E, SDG&E, Solar City, SCE, SoCalGas, Southern California Regional Energy Network (SoCalRen), The Utility Reform Network (TURN), and VoteSolar.

⁷ Parties filing Reply Comments are CESA, CFC, CAISO, CSE, Karey Christ-Janer, Clean Coalition, EnergySavvy, EDF, Local Government Sustainability Environmental Council/SFBayREN, MCE, NRDC jointly with Sierra Club, ORA, PG&E, SDG&E, Solar City, CSE, SoCalGas, SoCalRen, TURN, and VoteSolar.

breadth of the proceeding. The Post-Workshop Ruling is attached as Appendix A, but we provide a sample of the questions here:

- If the Commission selects one goal for the integration of demand-side resources, what should that goal be?
- Some of the definitions, goals, and objectives suggested by parties imply that the effective integration of demand-side resources requires demand-side resources to be better integrated with utility system planning, investment, and operation, as well as CAISO planning and operations. Is this correct? Do you agree? Should this broad challenge be addressed in this proceeding? Why and how?
- If identified as an objective of this proceeding, how should system planning and benefits be considered in a way that does not duplicate what is being considered in the distribution resources plans (or long-term planning process) proceedings?
- Should policies supporting the integration of demand-side resources maximize system benefit, including greenhouse gas reductions, maximize customer participation and benefits, or some combination of the two? In the integration of demand-side resources, how can we harmonize the needs and wants of customers with system needs, including greenhouse gas reductions? Should financial benefits and/or customer incentives for the integration of demand-side resources be uniform across the state and/or service territory or differentiated by locational value?
- Should the Commission shift from the current framework of encouraging the integration of demand-side resources through individual customer revenue streams from bill reductions and utility incentive payments to a different framework in which those benefit streams can be commoditized (bought and sold) to meet system needs (e.g., MW, MWh, flexible resource adequacy, greenhouse gas reductions)? Should the Commission create an open procurement or similar framework through which the integration of demand-side resources meets system needs? How can such a framework reflect customer needs, wants and

benefits? How can such a framework encourage integrated customer actions?

- How can the long run benefits of distributed energy resource investments be monetized and captured in an environment where ownership and occupancy of residential and commercial buildings changes in a much shorter time frame than the life cycle benefits of those investments?
- How can the various benefits of distributed energy resource investments that are considered in a complete cost-effectiveness evaluation be converted into financial benefits that flow to those who finance such investments (which may or may not include onsite customers receiving the energy service)?
- Is it important that any framework that emerges from this proceeding encourages third parties or utilities to deliver, and customers to take, integrated packages of technologies, at the same or within a limited time frame? How important is this (i.e., integrated demand-side management or actions) as compared to the integration of demand-side resources into system planning, etc., as discussed above? Should this proceeding take up both issues? Why or why not?

3. Discussion

Below, we explain the complementary roles of this proceeding, R.14-10-003, and the Distribution Resources Plans proceeding (R.14-08-013), and our intention in this proceeding to focus on the integration of demand-side resources broadly defined. In order to establish a strong foundation for this proceeding, we adopt a definition of integration and a goal for the integration of demand-side resources. Furthermore, we confirm the scope of this proceeding to be broader than originally anticipated in the OIR. As further described below, the scope will be broad in order to create a regulatory framework that looks at the entire energy production and delivery system and includes a determination of how best to source the distributed energy resources needed by the utilities

based on the determinations made in R.14-08-013. Additionally, the scope of this proceeding is expanded to consider whether the Commission should adopt localized incentives.

3.1. The Connection between the Distribution Resources Plans and the Integration of Demand-Side Resources Proceedings

The Commission initiated the Distribution Resources Plan proceeding, R.14-08-013, to establish policies, procedures, and rules to guide regulated energy utilities in developing their proposals required by Public Utilities Code Section 769. The goal of these proposals is to move a utility toward a fuller integration of distributed energy resources into its distribution system planning, operations and investment. As further explained below, R.14-10-003 will not duplicate these efforts. Rather, the two proceedings will work together to create an end-to-end framework from the customer side to the utility side of the system, with this proceeding implementing Section 769(b)(2) as part of that framework: the identification of tariffs, contracts, or other mechanisms for the deployment of cost-effective distributed resources, (*see Section 769(b)(2).*)

As captured in the January 15, 2015 Scoping Memo, discussions during the prehearing conference indicated diverse opinions regarding the scope of this proceeding. Some parties suggested that the scope focus solely on improved integration of the traditional demand-side programs of energy efficiency and demand response. Other parties recommended that the Commission take the opportunity to address a broader scope that would cover any gaps not currently covered by the Distribution Resources Plan, including aspects of system planning. Hence, the March Workshop and the Post Workshop Ruling

attempted to address this diversity and assist the Commission in determining how narrow or broad the scope of R.14-10-003 should be.

At the Workshop, parties re-initiated the subject of the Distribution Resources Plans proceeding and discussed the connection between the two proceedings. In the Post Workshop Ruling, parties were asked questions regarding the R.14-08-013 as well as system planning. Parties generally agree that either proceeding should require better integration with system planning. However, parties remain divided as to whether or not this proceeding should investigate this broader aspect of integration.

TURN, SDG&E, SCE, and SoCalGas concur that effective integration of demand-side resources requires better integration with system needs and system operations. However, these four parties contend that other proceedings, such as R.14-08-013, are currently considering how best to incorporate distributed energy resources into system planning.

Other parties envision this proceeding as an opportunity to fill a gap in system planning. Sierra Club and NRDC agree that R.14-08-013 will consider integrating system planning, but these two parties also maintain that connections to planning, operations and investment need to be made in R.14-10-003 to ensure coordination and the capture of all available system resources.⁸ Christ-Janer suggests that while locational values will be determined in R.14-08-013, the implementation of those values should be explored in this proceeding.⁹ Offering further demarcation, CSE contends that R.14-10-003 should assign roles and responsibilities for procurement of distributed energy resources, market

⁸ Sierra at 12.

transformation, and ensuring that sufficient resources will be deployed on time to displace other investments. Furthermore, CSE considers this proceeding to be able to identify mechanisms to displace the need for traditional investments five to ten years in the future.¹⁰

In our review of the OIRs establishing this proceeding and R.14-08-013, we acknowledge overlap between the two proceedings, but we also conclude that there is a clear demarcation between the two. The purpose of R.14-08-013 is to move the utilities toward a “more full integration of distributed energy resources into their distribution system planning, operations and investment.”¹¹ Thus, in R.14-08-013, the Commission will delineate the distribution system needs and how those needs can be optimally provided by distributed energy resources. The Commission will also determine the value of the distributed energy resources attributes required to provide those needs. Furthermore, Public Utilities Code Section 769 identifies the items to be included in each of the utilities’ Distribution Resources Plans; one of those items is the identification of tariffs, contracts or other mechanisms for the deployment of cost-effective distributed resources, (*see Section 769(b)(2)*).

Comparably, the purpose of this proceeding is to develop a framework to enable the offering of a wide portfolio of demand-modifying technologies best tailored to customers. Hence, R.14-10-003 can and should create the framework to determine how the resources, which are needed to fill the required characteristics and values developed in R.14-08-013, could be sourced.

⁹ Christ-Janer at 10.

¹⁰ CSE at 11.

¹¹ OIR 14-08-013 at 4.

Additionally, this proceeding should determine how to implement the tariffs, contracts and other mechanisms proposed in R.14-08-013. We surmise that future pilots, expected to be developed in Phase II of this proceeding, could test how best to integrate and procure resources to fit the characteristics needed or the means by which these go to the market.

We confirm the scope of this proceeding to be broader than originally anticipated in the OIR. Accordingly, the scope is revised to add that the Commission will determine how the distributed energy resources needed will be sourced, once the required characteristics and values of these resources have been determined in R.14-08-013.

3.2. Distinguishing the Integration of Demand-Side Management from the Integration of Demand-Side Resources

Because of two specific problems with current integration efforts highlighted by the parties, the Commission intends to focus on the integration of demand-side resources in this proceeding as opposed to integrated demand-side management. These two problems are: 1) demand side resources do not adequately impact system planning, investments and operations; and 2) current integration efforts do not address grid needs. As discussed in detail below, the regulatory framework eventually created in this proceeding will take into consideration the impact and interaction of such resources on the system as a whole as well as on an individual customer's energy usage.

During the March Workshop, participants discussed several problems with current integration efforts, as indicated by a staff handout (See attached Post-Workshop Ruling). The workshop participants then provided several additional problems and prioritized them (Table 1).

TABLE 1
Most Important Problems with Current Integration Efforts
1. Market Failure of Revenue Streams
2. Lack of Access to Data
3. Demand-side Resources do not Adequately Impact System Planning, Investments and Operations
4. Current Efforts do not Address Grid Needs
5. Current Efforts are too Focused on Rate-based versus Performance-based
6. Current Efforts are not Forward-looking
7. Integration is Divorced from Ratemaking

The Post-Workshop Ruling asked parties to comment on the workshop prioritization. Our review of the comments indicates that parties generally agree with the final prioritization of problems with two caveats: 1) the Utilities assert that the problems are being addressed in other proceedings;¹² and 2) some parties argue that access to data should be at the top of the list.¹³

We also note a recommendation by CAISO, NRDC, Sierra Club, and VoteSolar to subgroup the problems with the top priority being System Needs, a combination of items 1, 3 and 4 from Table 1.¹⁴ The Omnibus Report (as discussed in the OIR) underscored the need to establish a forum to integrate

¹² PG&E, SDG&E, SCE, and SoCalGas assert that many, if not all, of the problems listed in the final prioritization are being addressed elsewhere and the Commission should instead focus on developing customer-facing tools in this proceeding.

¹³ See comments from CFC, Greenlining and CforAT.

¹⁴ The other two priorities suggested are access to data and current efforts are not forward-looking.

comprehensive load planning activities. The OIR stated that the Commission would consider how to develop demand-side management assumptions for long-term resource planning in coordination with the Long-Term Procurement Plan proceeding.

We concur that many issues regarding system planning are being addressed elsewhere, including R.14-08-013, but we conclude that the Commission should ensure that the potential overlap and interactions between the two proceedings are being addressed. While a minority of parties in this proceeding would have the Commission narrow the breadth of this proceeding to focus solely on the concept of integrated demand-side management, the Commission recognizes the importance of the interaction between the ongoing proceedings but should understand those interactions. Public Utilities Code Section 769 and R.14-08-013 require that distribution system planning be informed by distributed energy resources, including choices made by customers. Here we acknowledge that the inverse is also true: customer choice should be informed by the impact of those choices on the electrical system. In giving the OIR breadth, we recognize the interplay, accept that it will be an increasingly important part of California's clean energy future, and resolve to create an end-to-end framework for distribution systems and distributed energy resources, which reflects both the challenges and opportunities therein.

Accordingly, the Commission will broaden the scope of this proceeding beyond looking at solely what the utilities offer customers (integrated demand-side management) and commit to also focus on what customers offer the utility (integration of demand side resources).

3.3. Adopted Definition

In this section, we first confirm that the integration of demand-side management is what the utilities and others offer to customers, and the integration of demand-side resources is the collective action of customers, the Commission, the Utilities, the CAISO, etc. to optimize demand-side resources to the extent possible. As further discussed below, we adopt the following definition for the integration of demand-side resources:

A regulatory framework developed by the Commission to enable utility customers to effectively and efficiently choose from an array of demand-side and distributed energy resources, taking into consideration the impact and interaction of such resources on the system as a whole, as well as on the individual customer's energy usage.

The OIR discusses the efforts of the Commission to integrate demand-side energy solutions and concludes that the efforts have had limited success. The Omnibus Report states that the definition of integrated demand-side management is not concrete. Without a clear description, it is difficult to achieve true integration. Our aim in this decision is to adopt a definition and a goal to lead toward a solution that will address the problems with current integration efforts, as identified at the March Workshop.

During the March Workshop, participants discussed several aspects of integration, which led to the development of nine group definitions for the integration of demand side resources. In reviewing the nine definitions,¹⁵ we found many similarities in the definitions, most notably an emphasis on the

¹⁵ See the Post-Workshop Ruling, which provided a list of the nine definitions.

customer. Also consistent in the definitions was a reference to a framework, tool, or solution.

The Post-Workshop Ruling asked parties to confirm and, if necessary, refine their definition of integration. To ensure clarity amongst the parties, the Ruling explained that the Commission considers integrated demand-side management as something the utilities or third parties offer to customers whereas integrated demand-side actions or behaviors are something customers do. We add here that integrated demand-side actions or behaviors also include the actions of the Commission, the Utilities, and the CAISO.

Parties were asked to comment on whether the concepts of “integration of demand-side resources” and “integrated demand-side management” are distinct concepts that should be defined separately for use in this proceeding. Most parties agree that the integration of demand-side resources and integrated demand-side management are two distinct concepts.¹⁶ CAISO offers the following explanation of the differences: the first concept refers to the integration of distributed energy resources into the operations and planning of the electric system and the second concept refers to the formation of combined, demand-side or customer-side solutions for meeting a specific customer need or impacting the shape of a load. CAISO suggests that the latter concept be kept but expanded to consider resource combinations such as demand-side and utility-side distributed energy resources.¹⁷ CAISO concludes that integrated

¹⁶ See, for example, CSE Opening Comments at 2-3; Christ-Janer Opening Comments at 2; CFC Opening Comments at 2; EDF at 2-3; Greenlining/CforAT at 1-2; MCE at 2; ORA at 2-3; SCE at 3-6; SoCalGas at 2-3; and SoCalREN at 3-4.

¹⁷ CAISO Opening Comments at 7-8.

distributed energy resources provide greater value to the grid and the customer than stand-alone resources.

TURN points out that several parties suggest that a narrow view of integrated demand-side management is too limited to form the basis of a proceeding that will effectively complement the Distribution Resources Plan proceeding.¹⁸ PG&E contends that both terms have been used interchangeably and that the Commission should focus its efforts on defining integrated demand side management.¹⁹ But PG&E adds in its reply comments that ultimately, the definition of integrated demand-side management needs to be flexible to remain relevant in a quickly changing environment.

In developing a definition, we return to our previous statement that the integration of demand-side management is the policy and program framework that the Commission, the Utilities, and others offer to customers and the integration of demand-side resources is the collective action of customers, the Commission, the Utilities, the CAISO, etc. to optimize demand-side resources to the extent possible.

We consider the integration of demand-side resources to be additive to integrated demand side management and, while both are in the scope for this proceeding, our emphasis will be on the integration of demand-side resources. We find that a narrow view is too limited to form the basis of a proceeding that will effectively complement the Distribution Resources Plan proceeding. Thus,

¹⁸ TURN Reply Comments at 4 citing CAISO Opening Comments at 2, EDF Opening Comments at 2, Sierra Club and NRDC Opening Comments at 3 and CSE Opening Comments at 2-3. *See also* Christ-Janer Opening Comments at 2-3, Consumer Federation of California at 2, and MCE at 2.

¹⁹ PG&E Opening Comments at 3-4.

we expand demand-side resources to include distributed energy resources, including resources on the system side of the customer's meter, anywhere within the Commission's jurisdictional (low-voltage and sub-transmission) distribution system.²⁰

With this in mind, and taking into account the emphasis of party's definitions on a framework and the customer, we adopt the following definition of the integration of demand-side resources:

A regulatory framework, developed by the Commission, to enable utility customers to most effectively and efficiently choose from an array of demand-side and distributed energy resources taking into consideration the impact and interaction of such resources on the system as a whole as well as on an individual customer's energy usage.

3.4. The Adopted Goal of the Integration of Demand Side Resources

As further explained below, we adopt the following goal for the integration of demand side resources:

To deploy distributed energy resources that provide optimal customer and system benefits, while enabling California to reach its climate objectives.

As was described during the March Workshop, a goal is broad, generic, long-term and not strictly measureable or tangible. During the course of the two-day workshop, parties discussed many aspects of integration to help them form a goal for the Commission to adopt. We find that a single overarching goal will promote the concept of integration and help the Commission, the Utilities, customers and third party distributed energy resource providers focus their

²⁰ R.14-08-013, February 6, 2015 Assigned Commissioner Ruling at 9.

efforts. In comments to the Post Workshop Ruling, parties offered overarching goals as indicated in Table 2.

TABLE 2	
RECOMMENDED OVERARCHING GOALS	
Party	Goal
CAISO	Avoid the procurement of supply resources for the benefit of the customers and grid.
Christ-Janer	A successful, coordinated, robust, effective effort gaining widespread market visibility, adoption and acceptance.
Comverge	Maximizing value for all customers and the utility.
EDF	Ensuring customer, distribution, and system value.
Greenlining/CforAT	Reliable, affordable and efficient clean energy, AND promote participation and coordination to provide comprehensive solutions to meet the needs of all customers, the environment and the grid.
LGSEC/SFBayREN	Reduction of greenhouse gas emissions
MCE	Reduction of greenhouse gas emissions
PG&E	Reduction of customer energy costs and greenhouse gas emissions.
SDG&E	The addition of value to the system through lower total costs, reaching strategic goals, and alignment of customer and system benefits.
Sierra Club/NRDC	Meet energy system needs and properly value reductions in greenhouse gas emissions to achieve California's climate goals.
SolarCity	Accelerate the contribution of distributed energy resources to meet California's clean energy policies

SCE	Improve the ability of customers and system planners to use resources in order to maximize customer, grid, and environmental benefits.
SoCalGas	Reduction of greenhouse gas emissions.
SoCalREN	Optimum long-term benefits for customers, reliable and safe clean energy resources for the grid, the reduction of greenhouse gases.
VoteSolar	Decreased costs and increased customer benefits

Two themes emerge in these recommended goals: 1) improving customer and system benefits; and 2) attaining California's environmental goals. Taking these two themes into account as well as our approach to look at the system holistically, we merge the various options and adopt the following goal for the integration of demand side resources:

To deploy distributed energy resources that provide optimal customer and system benefits, while enabling California to reach its climate objectives.

3.5. Expanding the Scope to Include Whether and How to Create and Offer Local Incentives

An unanticipated issue emerged during the workshop discussion; that of creating localized incentives. We conclude that the Commission should review how we shape incentives for investments in demand-side resources and consider the implications of rewarding incentives based on where the resources are located. As discussed more in depth below, the Commission will review whether we should continue our traditional method of equalized incentives for all customers, no matter their location, and weigh the pros and cons of emphasizing localized incentives versus emphasizing across-the-board customer participation.

In the Post Workshop Ruling, parties were asked two related questions. First, whether policies supporting the integration of demand-side resources should maximize system benefits or maximize customer participation. Second, whether incentives for the integration of demand-side resources should be uniform across the state or differentiated by locational value.

Generally speaking the parties argue that policies can support both system benefits and customer benefits, but not necessarily customer participation.²¹ In fact, EDF contends that attempts to maximize customer participation would result in lower aggregate customer benefits than could be achieved by geographically-targeted approaches.²² SCE and EDF suggest that the Commission consider how to optimize customer participation in a manner that maximizes customer and system benefits rather than how to maximize customer participation regardless of cost-effectiveness or most effective means of greenhouse gas reduction.²³ ²⁴ Similarly, Sierra Club and NRDC point out that the success of this proceeding should not be measured by the number of customers participating in demand-side programs but by the impact the resources have on the energy system as a whole in terms of cost, reliability, and climate goals.²⁵

Parties contend that a harmonization between system and customer benefits is required in the integration of demand-side resources. Furthermore, in

²¹ CFC Opening Comments at III, Clean Coalition Opening Comments at 6, and SoCalREN Opening Comments at 10.

²² EDF Opening Comments at 12.

²³ SCE Opening Comments at 13.

²⁴ EDF Opening Comments at 12.

crafting incentives, the Commission should reflect both system-wide and locational benefits.²⁶ PG&E states that uniform incentives are not optimal to ensure both customer and system benefits.²⁷ PG&E argues that program administrators should retain flexibility to craft incentive levels for location and customer-specific value to maximize the value of integration to both customers and system planners.²⁸ SCE explains further that you can have both: if a certain resource meets a local system need, these could be compensated locationally through a new method developed in this proceeding. Other resources not meeting local system need should be compensated in a more uniform methodology across the service territory.²⁹

We agree that there is a need for harmonization between system and customer benefits in the integration of demand-side resources. We also find that incentives should reflect both system-wide and locational benefits. The Commission recognizes a need to review this aspect of incentives, something that had not originally been conceived in this proceeding. Hence, we expand the scope of this proceeding to consider whether the Commission should adopt localized incentives and what methodology the Commission should use. However, at this point, there is insufficient evidence to determine either issue. The Next Steps section of this decision discusses the process that we will use to develop a record for making a determination on these issues.

²⁵ Sierra Club/NRDC at 14.

²⁶ Sierra Club/NRDC at 14.

²⁷ PG&E Opening Comments at 17.

²⁸ PG&E Opening comments at 17.

²⁹ SCE Opening Comments at 13.

4. Next Steps

The remainder of Phase I of this proceeding will support the development of an end-to-end framework for integrating demand-side resources, including relevant valuation methodologies and sourcing mechanisms.

We will continue to follow our current approach of using workshops to assist the Commission and parties in understanding the issues and using parties' comments to rulings in order to create a record. We anticipate that the issues of localized incentives and cost-effectiveness valuation will occur first and simultaneously. A staff proposal for updating the Commission's cost-effectiveness framework was presented in a recent workshop. We anticipate these two issues will assist in formulating the framework. The final step in Phase I will entail developing objectives for the adopted framework.

Phase II will consider how pilots may be launched to explore promising distributed energy resource sourcing mechanisms. A ruling setting forth the schedule will be issued shortly after the issuance of this decision.

5. Comments on Proposed Decision

The proposed decision of Commissioner Florio in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by_____.

6. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Kelly A. Hymes is the assigned ALJ in this proceeding.

Findings of Fact

1. Parties generally agree that improved integration with system planning should occur either in this proceeding or in R.14-08-013.

2. There is overlap between R.14-10-003 and R.14-08-013.

3. The purpose of R.14-08-013 is to move the utilities toward a fuller integration of distributed energy resources into the utilities' distribution system planning, operations and investment.

4. The purpose of this proceeding is to develop a framework to enable the offering of a wide portfolio of demand-modifying technologies best tailored to customers.

5. The Omnibus Report underscored the need to establish a forum to integrate comprehensive load planning activities.

6. The OIR stated that the Commission would consider how to develop demand-side management assumptions for long-term resource planning in coordination with the long-term procurement plan proceeding.

7. Issues regarding system planning are being addressed in other proceedings.

8. Customer choice should be informed by the impact of those choices on the electrical system.

9. Past integration efforts have had limited success.

10. The current definition of integrated demand side management is not concrete.

11. Without a clear description or definition, it is difficult to achieve true integration.

12. The definitions created by participants of the March Workshop consistently emphasized the customer and the creation of a framework, tool or solution.

13. Integrated demand side management is the policy and program framework that the Commission, the Utilities and others offer to customers.

14. The integration of demand-side resources is the collective actions of the customers, the Commission, the Utilities, the CAISO, etc. to optimize demand-side resources to the extent possible.

15. A narrow view of the integration of demand-side resources is too limited to form the basis of a proceeding that will effectively complement the distribution resources plan proceeding.

16. We should expand demand-side resources to include distributed energy resources, including resources on the system side of the customer's meter, anywhere within the Commission's jurisdictional distribution system.

17. A goal is broad, generic, long-term, and not strictly measureable or tangible.

18. A single overarching goal for integration will promote the concept of integration and help the Commission, customers and providers focus their efforts.

19. Two themes evolved from party recommendations for a goal: 1) improving customer and system benefits; and 2) attaining California's environmental goals.

20. An unanticipated issue, creating local incentives, emerged during workshop discussions.

21. Harmonization between system and customer benefits is required in the integration of demand-side resources.

22. Incentives should reflect both system-wide and locational benefits.

23. There is insufficient evidence to determine whether the Commission should adopt localized incentives and the methodology to be used.

Conclusions of Law

1. Public Utilities Code Section 769 identifies the items to be included in each of the Utilities' Distribution Resource Plans.

2. This proceeding should create the framework to determine how the resources, to fill the required characteristics and values determined in R.14-08-013, could be sourced.

3. This proceeding should determine how to implement the tariffs, contracts or other mechanisms proposed in Rulemaking 14-08-013.

4. The Commission should ensure that the potential overlap and interactions between this proceeding and R.14-08-013 are being addressed.

5. Public Utilities Code Section 769 and R.14-08-013 require that distribution system planning be informed by distributed energy resources, including choices made by customers.

6. The Commission should consider whether to adopt localized incentives and what the methodology should be.

O R D E R

IT IS ORDERED that:

1. The scope of Rulemaking 14-10-003 is expanded to include the determination of how the resources, needed to fill the required characteristics and values to be determined in Rulemaking 14-08-013, will be sourced.

2. The scope of Rulemaking 14-10-003 is expanded to focus on the integration of demand side resources in a holistic way that includes not only what the utilities offer customers (integrated demand-side management) but also what customers offer the utility (integrated demand side resources).

3. The following definition of the integration of demand-side resources is adopted:

A regulatory framework, developed by the Commission, to enable utility customers to effectively and efficiently choose from an array of demand-side and distributed energy resources taking into consideration the impact and interaction of resources on the system as a whole as well as on an individual customer's energy usage.

4. The goal of Rulemaking 14-10-003 is to develop and adopt a regulatory framework that is based on the impact and interaction of distributed energy and demand-side resources on an individual customer's energy usage as well as the system as a whole and b) enables customers to effectively and efficiently chose from an array of demand-side and distributed energy resources.

5. The following goal for the integration of demand side resources is adopted:

To deploy distributed energy resources that provide optimal customer and system benefits, while enabling California to reach its climate planning objectives.

6. The scope of Rulemaking 14-10-003 is expanded to consider the adoption of localized incentives and what methodology should be used in determining such incentives.

7. Phase I of Rulemaking 14-10-003 remains open to develop the end-to-end framework for integrating demand-side resources, including relevant valuation methodologies and sourcing mechanisms.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A