

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

6-21-16
04:59 PM

Order Instituting Rulemaking to Create a Consistent
Regulatory Framework for the Guidance, Planning,
and Evaluation of Integrated Distributed Energy
Resources.

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

**COMMENTS OF SIERRA CLUB ON THE FINAL REPORT OF THE IDER WORKING
GROUP FILED BY SOUTHERN CALIFORNIA EDISON COMPANY, PACIFIC GAS
AND ELECTRIC COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND
SOUTHERN CALIFORNIA GAS COMPANY**

June 21, 2016

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COMMENTS OF SIERRA CLUB ON THE FINAL REPORT OF THE IDER WORKING GROUP FILED BY SOUTHERN CALIFORNIA EDISON COMPANY, PACIFIC GAS AND ELECTRIC COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND SOUTHERN CALIFORNIA GAS COMPANY

Pursuant to the Administrative Law Judge’s Ruling Directing Comments to be Filed on the February 2, 2016 Status Report of the Integrated Distributed Energy Resources Working Group, Sierra Club respectfully submits the following comments on the Final Report of the IDER Working Group Filed by Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company (“Report”) on May 31, 2016. Of the three recommendations discussed in the Report, Sierra Club only comments on the section devoted to Recommendation #3: Future Phases. Sierra Club reserves the right to make reply comments on the other recommendations that are not addressed here.

Introduction

Sierra Club recommends that the Commission begin the important work set out in Phase 3 of the Energy Division Staff Proposal, prioritizing the development of a robust societal cost-effectiveness test. While Staff proposed establishing a new societal cost-effectiveness test to align the cost-effectiveness framework with California’s environmental goals, the Report recommends examining alternative approaches. The Report’s recommendation is unreasonable because it could unnecessarily delay the development of a societal cost-effectiveness test. The Commission must avoid such delay because a societal cost-effectiveness test is an important tool for carrying out the Commission’s duties under SB 350 and the best cost-effectiveness

framework for integrating distributed energy resources.

The Report also recommends examining far more issues in Phase 3 than Staff initially proposed. The Report's expanded list of complex issues ignores Commission priorities, is unwieldy, and fails to prioritize activities that will best advance California's policy goals.

I. The Staff Proposal for Phase 3 Should Be the Foundation of the Next Phase of Cost-Effectiveness Activities in this Proceeding because it Reflects the Commission's Priorities and Will Advance SB 350 Implementation.

The Staff proposal for Phase 3 is a high priority for the Commission and sets out a manageable list of crucial activities. Indeed, one activity in the Staff's proposal for Phase 3 has become more urgent with the enactment of SB 350: the establishment of a new societal cost-effectiveness test. Therefore, the Commission should reject any recommendations in the Report that would undermine or delay this goal.

The Commission recently found "that future phases of cost-effectiveness work (specifically, Phases 2, 3 and 4 *as described in the Staff Proposal*) are high priority for the Commission in order to continue to enhance our DER cost-effectiveness approaches and to prepare for integrated resource planning envisioned in R.16-02-007 (and required by SB 350)."¹ Because the activities described in the Staff Proposal are a high priority, the Commission authorized expenditures to support them.²

One of the main elements of Phase 3, as described in the Staff Proposal, was "[lign[ing] the cost-effectiveness framework with California's environmental goals" by establishing a new societal cost-effectiveness test.³ However, the Report's recommendations "modified" the Staff Proposal.⁴ Rather than recommending the development of a societal cost-effectiveness test, the

¹ D.16-06-007 at 19 (footnote omitted) (emphasis added).

² *Id.*

³ IDSM Cost-Effectiveness Mapping Project Report and Staff Proposal at 11 (July 30, 2015).

⁴ Report, Attachment A at 2.

Report opines that “[t]here are several schools of thought about how to approach” aligning the cost-effectiveness framework with California’s environmental goals and lists a societal cost-effectiveness test as one of five potential options.⁵ The Report did not consider whether these changes were consistent with the Commission’s priorities, SB 350, or other state policies.

The Commission should not modify Phase 3 to include analysis of the Report’s alternatives. This modification would unnecessarily delay the development of a societal cost-effectiveness test, which remains the best way to align the cost-effectiveness framework with California’s environmental goals and a critical tool for carrying out the Commission’s statutory duties.

A. The Societal Cost-Effectiveness Test Described in the Staff Proposal would Aid SB 350 Implementation and Commission Policies.

Since the publication of the Staff Proposal in July 2015, SB 350 and multiple Commission decisions have given new urgency to developing a robust societal cost test. In SB 350, the legislature commanded the Commission to do the following in furtherance of California’s clean energy and pollution reduction objectives: “Take into account the opportunities to decrease costs and increase benefits, including pollution reduction and grid integration, using renewable and nonrenewable technologies with zero or lowest feasible emissions of greenhouse gases, criteria pollutants, and toxic air contaminants onsite in proceedings associated with meeting the objectives.”⁶ The Commission should begin complying with this mandate by developing a new societal cost test for use in planning, procurement, and other decisions. The current SPM tests do not include most of the pollution-reduction benefits that SB 350 ordered the Commission to take into account in proceedings related to clean energy

⁵ Report, Attachment A at 3.

⁶ Pub. Utilities Code § 400(b).

and pollution reduction objectives—which are the very proceedings in which the Commission would consider the cost-effectiveness of distributed energy resources.

In addition, the legislature provided for consideration of the societal benefits of specific kinds of DERs. In all proceedings related to California’s clean energy and pollution reduction objectives, the Commission must “[t]ake into account the use of distributed generation to the extent that it provides economic and environmental benefits in disadvantaged communities.”⁷ SB 350 also requires that programs related to electric vehicles be in the public interest, defining the relevant interests to include “[r]eduction of health and environmental impacts from air pollution”, “[r]eduction of greenhouse gas emissions,” job creation, and “other economic benefits.”⁸ A societal cost-effectiveness test would aid the Commission’s compliance with SB 350’s DG and EV provisions.

SB 350 also requires the Commission to adopt a process for IOUs to file integrated resource plans (“IRPs”) that must, *inter alia*, “[m]inimize localized air pollutants and other greenhouse gas emissions, with early priority on disadvantaged communities.”⁹ In the Order Instituting Rulemaking for the 2016 Long Term Procurement Planning proceeding, the Commission stated that the cost-effectiveness work in this proceeding would be “highly relevant to the ultimate IRP work” and the updated cost-effectiveness methodology could be incorporated into the IRP process as necessary.¹⁰ Similarly, in D.16-06-007, the Commission properly recognized that the work set out in the Staff Proposal is a high priority because of its role in

⁷ Pub. Utilities Code § 400(a).

⁸ Pub. Utilities Code § 740.8(b).

⁹ Pub. Utilities Code § 454.52(a)(1)(H).

¹⁰ R.16-02-007 at 19.

integrated resource planning.¹¹ Indeed, a societal cost-effectiveness test could help ensure resources included in the IRPs optimize the diverse benefits identified in SB 350.¹²

Moreover, the Commission requires analysis of the environmental benefits of distributed generation to review the NEM successor tariff. Public Utilities Code section 2827.1(b)(4) requires the Commission to ensure the “total benefits of the standard contract or tariff [for customer-generators] to all customers and the electrical system are approximately equal to the total costs.” The Commission found that using an updated societal cost-effectiveness test to comply with this provision was “beyond the competence” of R.14-07-002, explaining that the NEM successor tariff must be in place before other proceedings could deliver insights into the benefits of distributed generation.¹³ The Commission explained that IDER was one of the Commission’s principal efforts to surface and identify values of distributed energy resources.¹⁴ Ultimately, the Commission found it “reasonable to conclude” that IDER will “provide information and analysis relevant to the determination of the benefits . . . of the NEM successor tariff.”¹⁵ If the Commission fails to develop a robust societal cost-effectiveness test in IDER, it would need a new strategy for measuring the total benefits of the NEM successor tariff.

Finally, in this proceeding, the Commission adopted a definition of “integration of distributed energy resources” which requires taking environmental impacts into account. Under the Commission’s definition, IDER is “[a] regulatory framework, developed by the Commission . . . taking into consideration the impact and interaction of resources on the grid as a whole, on a customer’s energy usage, and on the environment.”¹⁶ Under this definition, the Commission

¹¹ D.16-06-007 at 19.

¹² See Pub. Utilities Code § 454.52(a).

¹³ D.16-01-044 at 59.

¹⁴ *Id.* at 60.

¹⁵ *Id.* at 107.

¹⁶ D.15-09-022 at 28.

must consider DERs' full impact on the environment. A robust societal cost-effectiveness test would allow the Commission to build a regulatory framework that accounts for DERs' many significant environmental impacts and, thus, achieve the integration of distributed energy resources.

B. The Alternatives Suggested in the Report are Unreasonable Because They Fail to Meet the Commission's Analytical Needs.

The Report did not consider SB 350 nor Commission policies and, consequently, offers alternatives that do nothing to advance SB 350's mandates. As described above, for instance, SB 350 requires the Commission to "[t]ake into account the opportunities to decrease costs and increase benefits" related to pollution reduction in many of its proceedings.¹⁷ Yet the Report offers alternatives that fail to incorporate these impacts into the cost-effectiveness framework.

The Report suggests four alternatives to a societal cost-effectiveness test.¹⁸ The Report's first option is leaving non-energy impacts—such as pollution reduction—out of the cost-effectiveness tests entirely. This alternative unreasonably ignores impacts that SB 350 requires the Commission to consider. Second, the Report suggests making consideration of non-energy impacts optional. Again, this alternative is unreasonable because consideration of environmental impacts is *mandatory* in proceedings associated with meeting California's clean energy and pollution reduction objectives (e.g., the proceedings for distributed energy resources). The Report's third alternative is applying one proceeding's current methods to all resources. This option is inadequate because no proceeding uses values for reducing emissions of greenhouse gases and localized air pollutants in its cost-effectiveness methodology. Fourth, the Report suggests incorporating some non-energy impacts into existing cost-effectiveness tests. It is unclear how this option would differ from using a societal cost-effectiveness test, but it would be

¹⁷ Pub. Utilities Code § 400(b).

¹⁸ Report, Attachment A at 3.

unreasonable if it ignored any of these environmental impacts. The Commission should not delay development of a societal cost-effectiveness to consider such unreasonable alternatives.

In short, the Commission requires a keen understanding of the environmental benefits of distributed energy resources in order to carry out multiple legislative mandates. The Commission is relying on the analysis in this proceeding for purposes such as establishing an IRP process that meets the criteria in SB 350 and reviewing the NEM successor tariff. Developing a new societal cost-effectiveness test would allow the Commission to satisfy its objectives, while the Report's alternatives would fail to meet the Commission's analytical needs.

II. The Commission Should Exercise Caution in Considering Any Expansion of Phase 3.

The Report's recommended list of Phase 3 issues includes several new topics, although ALJ Hymes did not authorize the Cost-Effectiveness Working Group to add issues to the Staff Proposal.¹⁹ The addition of new issues would complicate Phase 3 and could make Phase 3 unwieldy. Therefore, Sierra Club urges the Commission to exercise caution in considering any expansion of Phase 3.

It may be appropriate to consider some new issues in conjunction with the activities in the Staff Proposal, when they are closely connected. For instance, Staff proposed "examining the possibility of modifying the cost-effectiveness framework so as to incorporate probabilistic techniques." The Report raised an additional issue related to incorporating uncertainty: covariance analysis. The Commission may decide that it is appropriate to consider covariance analysis as an alternative to other probabilistic modeling techniques when it examines the possibility of incorporating probabilistic techniques into the cost-effectiveness framework. Then,

¹⁹ Email Ruling Establishing a Working Group for Creating a Consensus Proposal ("This Ruling hereby establishes a working group tasked with the sole purpose of evolving Phase 1 of the Staff Proposal into a consensus proposal.").

the Commission would consider covariance analysis in the natural course of the Phase 3 activities in the Staff Proposal.

However, new issues that are not closely connected to the issues in Phase 3 of the Staff Proposal should be considered low priority—if they are considered at all. For instance, the issues listed under 3.g of the Report should only be considered after completing the goals set forth in the Staff Proposal for Phase 3.

III. Prioritizing Phase 3 Activities.

The Report does not recommend a particular order or priority for its list of Phase 3 issues. Based on its participation in the working group, Sierra Club believes that the working group will not be able to reach consensus on an appropriate set of priorities. Therefore, Sierra Club requests that—if the working group continues—the Assigned Commissioner or Assigned Administrative Law Judge provide specific direction regarding priorities in its next phase of activity.

Sierra Club recommends prioritizing the activities in Phase 3 of the Staff Proposal in the following order:

1. Combine issues #2 and #4 and give this set of issues top priority:
 - Align the cost-effectiveness framework with California’s environmental goals (“establish a new societal cost-effectiveness test that includes values for climate change/GHG mitigation and environmental protection benefits and would apply to all demand-side resources”); and
 - Align the avoided cost concept with the needs of the grid and California’s long-term goals.
2. Incorporate uncertainty – “establish guidelines which would require all demand-side proceedings to include sensitivity analysis on key variables, as an interim measure.”
 - *Rationale:* The Staff Proposal noted that there are several potential steps for incorporating uncertainty in the cost-effectiveness framework and

proposed guidance on sensitivity analysis, which could be put in place as an interim measure as the proceeding examined more complex techniques. This type of interim measure is low-hanging fruit for improving cost-effectiveness analysis and the Commission should implement it in the short-term. Conducting a sensitive analysis with a few key variables would not be a challenge and can meaningfully improve decision making. Specifically, sensitivity analyses should be based on high- and low-end estimates for natural gas prices and carbon prices.

3. Include market and reliability impacts – Staff has proposed a stakeholder process for evaluating these impacts.
4. Incorporate uncertainty – “incorporate probabilistic techniques into our existing models.”

An efficient process may require the working group to examine some of these issues before all higher-priority items are completed. For instance, the development of a social cost test may be a lengthy process that begins with a Staff white paper or a straw proposal from a consulting firm. Then, it may make sense to discuss interim measures for incorporating uncertainty while the white paper or straw proposal is under development.

Conclusion

Sierra Club urges the Commission to proceed expeditiously with the activities described in Phase 3 of the Staff proposal. Most importantly, the Commission should begin developing a new societal cost-effectiveness test in the next phase if its cost-effectiveness activities.

Dated: June 21, 2016

Respectfully submitted,

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