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**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 Distributed Energy Resources.

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

**NATURAL RESOURCES DEFENSE COUNCIL (NRDC) REPLY
COMMENTS ON THE COST-EFFECTIVENESS WORKING GROUP
(CEWG) REPORT**

June 28, 2016

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(CEWG) REPORT**

I. Introduction

Pursuant to Rules 1.9 and 1.10 of the California Public Utilities Commission's (Commission or CPUC) Rules of Practice and Procedure, the Natural Resources Defense Council (NRDC) submits the following reply comments on the consensus Cost-effectiveness Working Group report pursuant to "Ruling of Administrative Law Judge Directing Comments to be Filed on the February 2, 2016 Status Report of the Integrated Distributed Energy Resources (IDER) Working Group," (Ruling) February 29, 2016. NRDC is a non-profit membership organization with more than 70,000 California members who have an interest in receiving affordable energy services while reducing the environmental impact of California's energy use.

II. Discussion

NRDC, along with other stakeholders, has been working on these key issues for a number of years. We urge the Commission to rely on the final CEWG report that represents a broad discussion of the issues and move swiftly to prioritize and resolve the outstanding issues in Phase 3 of this proceeding to maximize integrated demand energy resources in lieu of the more expensive pollution resource.

A. The Commission should prioritize aligning cost-effectiveness with the state's climate policy by exploring a greenhouse gas (GHG) avoided cost approach and applying the most appropriate discount rate for the test being used.

NRDC agrees with Marin Clean Energy (p.2) and 350 Bay Area's (p.1) endorsement of aligning cost-effectiveness with state climate policy and supports Sierra Club's prioritization (p.9) of such alignment as the Commission's first topic to address in Phase 3. However, we disagree with CLECA (p.3) that GHG should not be used in calculating avoided costs. As the state moves to an integrated resource planning process that aims to minimize localized air

pollutants and other greenhouse gas emissions pursuant to Senate Bill 350, the energy agencies will need to reassess what it is we are avoiding in line with the law.

While the traditional method of understanding how much conventional energy the DER is avoiding can still provide important insights, it may no longer be appropriate to use such information as the sole determinate for program approval or funding level. As the state moves toward the goal of 40% reduction in GHG emissions below 1990 levels by 2030 and 80% below 1990 by 2050, the energy agencies will need to explore whether it is more appropriate to use avoided GHG emissions as the predominant metric to determine how best to deploy DERs.

NRDC also agrees with 350 Bay Area (p.2) that the WACC discount rate should not be automatically applied to all DERs and tests. We therefore urge the Commission to include an exploration of which discount rate is appropriate as part of the prioritized objective to align current policies with climate goals in Phase 3. For example, if the Commission wants to enable the utilities, local governments, and third party providers to provide long term savings, whichever DER is being used, the cost-effectiveness framework needs to value long term savings by applying a lower discount rate. If the goal is to compare DERs against traditional power, that may require a different discount rate (e.g., WACC). It is therefore imperative that the Commission first determine the purpose of the tests and then ensure the assumptions are updated to align with those objectives.

B. The Commission should set forth clear direction for how to decide which test is most appropriate to use.

NRDC appreciates the comments of MCE (p.2) and Sierra Club (p.2) that the CPUC should explore a Societal Cost Test (SCT). However, until the Commission identifies what it aims to do with such a test, it is not clear that is the right approach. For example, if the Commission wants to compare the cost of DERs to conventional power, the Program Administrator Test would continue to be the most appropriate test. If the Commission wants to compare how DERs compare within a service territory for the utilities and customers, then the Total Resource Cost test would be the appropriate test (with improvements).

While we agree the current tests need to be updated to ensure a balanced equation and take into account recent climate and energy policy, we are not convinced at this time that completely switching to the SCT would resolve the outstanding issues or achieve the objectives of the Commission and stakeholders. Instead, NRDC strongly recommends that the Commission follow the proposal in the final CEWG report to “develop policy rationale and recommendations

for how the various SPM tests are used” (such as for information, DER choices, or funding), including whether and how to apply the SCT.

III. Conclusion

NRDC appreciates the discussion of evolving the current cost-effectiveness approach to meet our climate goals. We look forward to working with staff and stakeholders to develop solutions to the challenges outlined in the CEWG report.

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Respectfully submitted,



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