

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



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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)

**RESPONSES OF CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL
TO ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING RESPONSES TO POST
MARCH 4-5, 2019 WORKSHOP QUESTIONS**

May 24, 2019

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The California Efficiency + Demand Management Council (the “Council”) respectfully submits these responses to the Administrative Law Judge’s Ruling Directing Response to Post March 4-5, 2019 Workshop Questions, issued in this Proceeding on April 15, 2019.¹

We appreciate the work that Administrative Law Judge (“ALJ”) Hymes and Energy Division Staff have undertaken to identify and explore potential tariffs that could maximize locational, energy, and environmental benefits from Distributed Energy Resources (“DERs”). For some resources, DER tariffs could offer an effective alternative procurement mechanism for DERs to meet distribution infrastructure needs under the Distribution Investment Deferral Framework (“DIDF”), and ought to be explored further.

We propose that the Commission test the most promising tariff approaches discussed during the two-day workshop in March to understand better their relative fit to varying DER categories, the ways in which they can be applied, and their relative effectiveness compared to competitive solicitations for particular use cases. Piloting tariff approaches would enable the Commission and market participants to reach informed, well-considered views on those tariffs that appear likely to provide a beneficial procurement mechanism for particular resource classes,

¹ These responses are timely filed pursuant to the California Public Utilities Commission (“CPUC” or “Commission”) Rules of Practice and Procedure and the ALJ Ruling.

as well as to identify aspects of the tariffs that need improvement. In the comments that follow the Council responds to the questions identified, and requests that the Commission take action to:

- Achieve the goal of testing the ability of DER tariffs to meet the dual objective of cost-effectively deferring, or avoiding, identified distribution upgrades and mitigating the need to plan for future long term anticipated upgrades; and
- Establish an evaluation methodology that will enable a comparative analysis of chosen DER tariff proposals

I. BACKGROUND

The Council is a statewide trade association of non-utility companies that provide energy efficiency and demand response services and products in California.² The Council's member businesses employ many thousands of Californians throughout the state. These businesses represent implementation and evaluation experts, energy data analytics providers, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of energy efficiency and demand response products and equipment. The Council's mission is to support appropriate energy efficiency and demand response policies, programs, and technologies to create sustainable jobs, foster long-term economic growth, create stable and reasonably priced energy systems, and result in environmental improvement.

II. RESPONSES TO POST MARCH 4-5, 2019 WORKSHOP QUESTIONS

1. Explain in detail whether you think the Commission should adopt a tariff for distributed energy resources.

To date, the DIDF has focused on increasing transparency on distribution system needs, the investments required to meet those needs, and the ways in which DERs can be procured to cost-effectively meet these needs via traditional competitive solicitations. The competitive solicitation process has proven to be effective at driving down costs, as well as increasing

² More information about the California Efficiency + Demand Management Council can be found at www.cedmc.org.

performance by allowing market actors to submit innovative new concepts. However, solicitations are not always the best, and should not be the only, mechanism for sourcing DERs for distribution system needs identified through the DIDF process.

DER Tariffs, in comparison, have the potential to provide customers, developers, and utilities with the market rules and price signals that would better enable swift deployment of some classes of DER. A defined tariff, with all terms, conditions, and compensation rates established up front, would enable DER developers to achieve steadier customer acquisition at the granular level required for target distribution deferrals. This is achieved by signing up customers immediately, without having to wait for the completion of the process of preparation and evaluation of bids, negotiating contracts, and securing Commission approval of the contracts. Tariffs also have the potential to avoid the significant transaction costs and uncertainty that comes with the traditional solicitation process. Under an adopted DER tariff, developers would not need to dedicate staff time preparing bids in the hope of an award, which may be a sunk cost, or in negotiating of contracts upon approval. Similarly, utilities would not need to dedicate staff time to evaluate those bids, or negotiate contracts, including the many, submitted proposals that will not ultimately come to fruition. Neither procurement vehicle is a panacea; the best mechanisms must be selected according to match the identified need, the resources available, the capabilities of the suite of technologies proposed, maturation of the technology, as well as multiple other factors.

Given these procurement mechanism considerations, the Council supports piloting a variety of DER tariff proposals to understand how varying elements of the DER market responds to them, the over- and under- procurement risks associated with the tariffs, and their effectiveness relative to competitive solicitation process in procuring various types of DERs to

meet the distribution needs identified in the DIDF process. In addition to the focus of meeting DIDF's identified deferment or avoided specific upgrades, the Council also supports piloting tariff proposals that would test targeting DER deployment in regional locations to produce long-term system and local benefits, that would avoid or defer the grid conditions that trigger the need to study, plan and deploy responses.

- 2. If the Commission determines that it should adopt a distributed energy resources tariff, should the tariff focus solely on distribution deferral services (energy, capacity, and voltage/Volt Ampere Reactive (VAR))? If the tariff should focus solely on distribution deferral, should the tariff have synergy with the distribution investment deferral framework and how? Should a distributed energy resources tariff be a supplement to the current solicitation process or replace it? Should the tariff be updated or refined over time and why?**

The Council recommends a two-prong approach that tests the ability of DER tariffs proposals to (i) defer short term, already-identified distribution infrastructure needs and (ii) avoid long term anticipated grid stress and associated infrastructure development responses in identified areas. We believe this dual-focused approach aligns with the Commission's defined objective of the DIDF, "to identify and capture opportunities for DERs to cost-effectively defer or avoid traditional IOU investments that are planned to mitigate forecast deficiencies of the distribution system."³

For deferring or avoiding already-identified distribution infrastructure upgrades, the Council recommends that tariffs focus on the specific projects identified in the DIDF process. Projects that would have required significant capital investments and are amenable to DER alternative solutions can be initially identified with the Grid Needs Assessment ("GNA") reports, in which utilities identify known or anticipated grid needs on a ten-year forward basis and refined through consultation with the Distribution Planning Advisory Group ("DPAG"). These

³ Decision (D.) 18-02-004, at p. 27.

opportunities should then be included in the utilities' Distribution Deferral Opportunity Reports ("DDORs"), and specifically defined in their Tier 2 advice letters.

To pilot tariffs that are not focused on avoiding or deferring specific needs, but rather on mitigating the long-term deficiencies, the Council asks the Commission to consider requiring all the state's Investor-Owned Utilities ("IOUs") to develop demand-related marginal distribution costs for their service territories. This marginal cost data could then be utilized in DER tariff programs to target regions where distribution costs are highest in comparison to the system average. The Solar Energy Industry Association (SEIA) submitted a tariff proposal to utilize this data; our support for this proposal will be discussed later in the comments.

3. If the Commission determines that it should adopt a distributed energy resources tariff, explain whether the Commission should adopt more than one tariff proposal for distributed energy resources.

The Council recommends the development of multiple tariff pilot projects to understand the advantages and limitations of the various proposals for different use cases. Through multiple pilots, the best avenues for deferring, or avoiding, identified distribution upgrades and mitigating long term deficiencies can be identified. These pilots should evaluate whether each tariff mechanism is useful, how it can be improved, and provide uniform data that allows different mechanisms to be compared against each other. The Council also believes it is important to provide a basis for comparison of tariffs and competitive solicitations. However, we encourage the Commission to avoid the trap of assuming all projects are appropriate for solicitations or for tariffs. In part, the DER tariff workshop process was initiated due to the inability of solicitations to move swiftly to meet identified needs; some near-future identified project needs will only be able to be met by DER tariffs.

4. If the Commission determines that it should adopt a distributed energy resources tariff, explain whether the Commission should take an initial step of piloting a tariff proposal for distributed energy resources.

The Council recommends that tariff proposals are thoroughly piloted and that pilots are carefully evaluated before a decision is made on whether to implement any tariffs for any particular use case permanently. The implementation, evaluation, and permanent adoption of any given proposal must be time-bound to avoid the “pilot purgatory” that programs can fall victim to if not properly managed.

5. If the Commission determines it should take the initial step of piloting a tariff proposal for distributed energy resources, explain whether the Commission should pilot more than one tariff proposal.

The Council believes it is appropriate to pilot more than one proposal, in order to test the comparative abilities of different proposals to meet the goal of deferring, or avoiding, varying distribution upgrade needs emerging from the DIDF process or mitigating anticipated long-term distribution needs. Again, it will also be important for the Commission to provide a basis for comparison with solicitations for appropriate projects and have a clear evaluation process for each proposal.

6. Which one or more of the seven tariff proposals presented at the workshop would you support either as proposed or with modifications and why? If a proposal requires modifications, describe those modifications. Explain how the proposal meets the design principles, meets grid needs, manages risks, addresses incrementality, and ensures that operational requirements are met. Explain whether you would support the proposal as a tariff or only as a tariff pilot.

The Council recommends that the Commission pilot the following tariff proposals:

a. Tariff Proposals that focus on meeting specific distribution deferral needs.

The Council recommends piloting the *Pacific Gas & Electric (PG&E) ’s DIDF Tariff* proposal, the *Southern California Edison (SCE) ’s Distribution Deferral Services Standard Offer Contract* tariff proposal (“SCE-1 proposal”), and *SCE ’s Riders on Existing Programs and Tariffs*

proposal (“SCE-2 proposal”), with the modifications discussed during the workshop and some additional modifications, as described below for each proposal.

PG&E's DIDF Tariff Proposal: The proposal with modifications would include:

1. The utility identifies, and the Commission approves, distribution deferral projects as part of GNA/DIDF/DDOR.
 - a. The projects slated for the tariff pilot are identified in the utility’s DDOR and the information is made public to give DER developers as much time as possible to learn about the projects and prepare.
 - b. Projects slated for the tariff could address any distribution deferral services identified in DIDF.
2. The utility offers a tariff in the form of a standard contract with terms and conditions for distribution deferral to meet the need identified in DIDF.
 - a. For the pilot project, start with the technology neutral pro-forma (“TNPF”) contract and negotiate it as needed. The goal would be to modify the TNPF through stakeholder involvement to develop a non-modifiable standard contract to be used in future projects procured using the tariff.
 - b. Offer the tariff through a relatively short subscription period (e.g., a month +) that allows sufficient time for developers to evaluate whether they can meet the need.
 - c. Limit the availability of the standard contract to DER project(s) in the targeted deferral location and time period identified in DIDF that could meet the distribution deferral service need.
 - d. Require the utility to make the distribution deferral value public.
 - e. Have interested parties, including DER providers, aggregators, or customers, submit a pricing sheet through the subscription process that indicates their willingness to accept various price levels (e.g., 50%, 75%, 95% of deferral value).
3. At the conclusion of the subscription, the utility negotiates tariff contracts with developers that can fulfill the need at the lowest price (at or below the deferral value).
 - a. If the utility does not have enough participants to meet the need cost-effectively, no contracts are pursued, and the utility proceeds with the traditional distribution project.
4. Commission approval of projects, tariffs, and contracts needs to be sped up to be able to use the tariff to meet near-term needs.

SCE's Distribution Deferral Services Standard Offer Contract Tariff Proposal: The

proposal with modifications would include:

1. The utility identifies, and the Commission approves, distribution deferral projects as part of GNA/DIDF/DDOR.
 - a. The projects slated for the tariff pilot are identified in the utility's DDOR and the information is made public to give DER developers, aggregators and customers as much time as possible to learn about the projects and prepare.
 - b. Although SCE specified that projects slated for the tariff will focus exclusively on capacity distribution deferral services, we recommend that other distribution deferral services are considered to allow value stacking of DERs.
2. The utility offers a tariff in the form of a standard contract with terms and conditions for distribution deferral to meet the need identified in DIDF.
 - a. For the pilot project, start with a simplified standard offer contract that needs to be negotiated. The Council recommends using the TPNF contract as the starting point and negotiate it as needed. The goal would be to modify the TPNF through stakeholder involvement to develop a non-modifiable standard contract to be used in future projects procured using the tariff.
 - b. The tariff is offered through a relatively short subscription period (e.g., a month +) that allows sufficient time for developers, aggregators, and customers to evaluate whether they can meet the need.
 - c. The availability of the standard contract is limited to DER project(s) in the targeted deferral location and time period identified in DIDF that could meet the distribution capacity deferral service need.
 - d. The utility provides notice of the DER services it seeks along with potential prices to procure the DER services during the subscription period. The utility will offer price levels at, above, and/or below the deferral value, and invite offers at any or all of these price levels.
 - e. Interested parties, including DER providers, aggregators, or customers, indicate the quantity of the DER services they are willing to provide at the specified prices.
3. At the conclusion of the subscription, the utility negotiates tariff contracts with developers that can fulfill the need at the lowest price (at or below the deferral value).

- a. If the utility does not have enough participants to meet the need cost-effectively, no contracts are pursued, and the utility proceeds with the traditional distribution project.
4. Commission approval of projects, tariffs, and contracts needs to be sped up to be able to use the tariff to meet near-term needs.

SCE's Riders on Existing Programs and Tariffs Proposal: Although this proposal is not as well defined as the two previously described proposals, the Council recommends that this proposal is further developed and piloted. This proposal provides the opportunity to provide direct price signals to customers via local rates to implement DERs in targeted locations and make use of their DER capabilities at those times when specific distribution needs have been identified.

The proposal provides additional incentives for deployment and dispatch of DERs via “riders” on existing tariffs/programs, i.e., offering additional program-based upfront incentives and/or additional tariff-based ongoing incentives to help ensure that DER deployment and dispatch are aligned with the distribution deferral needs identified in the DIDF. The proposal capitalizes on the flexibility and ratatability of behind-the-meter (“BTM”) DERs, which can facilitate targeting and tune their deployment and dispatch to keep the identified distribution grid loading below the planned loading limit.

The proposal with modifications would include:

1. The utility identifies, and the Commission approves, distribution deferral projects as part of GNA/DIDF/DDOR.
 - a. The projects slated for the tariff pilot are identified in the utility’s DDOR and the information is made public to give DER developers as much time as possible to learn about the projects and prepare.
 - b. Projects slated for the tariff pilot are focused on distribution deferral capacity and distribution deferral energy.

2. For the targeted locations, the utility evaluates the customer composition, current penetration of various DER technologies, the effectiveness of different DER technologies, and likelihood of customer adoption of incremental DERs above and beyond those embedded in the planning forecasts used to identify the grid needs to identify those locations where a complete DER solution is feasible and therefore suitable for piloting the tariff.

- a. The proposal could be applicable to programs such as SGIP; the Multi-Family Affordable Housing (“MASH”) solar program; the Smart Energy Program for the deployment of smart thermostats; various energy efficiency programs; and Charge Ready. The proposal could also be applicable to a variety of customer tariffs, such as various demand response incentives including Agricultural and Pumping Interruptible Program (“API”), SDP, and BIP; specific Time-of-Use (“TOU”) rates aligned with local grid needs; and/or other relevant and appropriate tariffs.

3. The utility would use a portion of the deferral value of a candidate deferral project to provide an incremental incentive on top of existing programs and/or tariffs for customers interconnected to facilities affected by or involved in the scope of the candidate deferral project.

- a. The incentive would have two components: an upfront program-based incentive to promote further adoption of effective DERs and an on-going tariff-based incentive to encourage the use of these DERs to meet the identified need.
- b. The upfront portion of the incremental incentives could be a one-time cash payment in exchange for the procurement and installation of a BTM DER and the obligation to enroll into a specific TOU rate that would inform the use of that DER on a day-to-day basis. This incentive would only be paid if and after sufficient DER deployment to meet the need is attained.
- c. The ongoing portion of the incentives would be paid after the DERs are used or dispatched to meet the grid needs (if applicable). The incentive would be concentrated during the specific time periods during which customer behavior is required to mitigate the grid need.

4. If there is inadequate deployment during a specific time period, the utility would proceed with the traditional distribution project.

b. Additional Comments on PG&E’s and SCE’s Proposals:

Given the similarities between *PG&E’s DIDF Tariff* proposal and *SCE’s Distribution Deferral Services Standard Offer Contract* tariff proposal, the Council recommends that, as was

discussed during the workshop, PG&E and SCE agree on a joint tariff proposal that can then be tested. During the workshop, San Diego Gas and Electric (“SDG&E”) indicated that they could support such a proposal, which would facilitate testing the proposal with projects from all three utilities.

Several issues need to be clarified and further developed related to SCE’s *Riders on Existing Programs and Tariffs Proposal*:

- How “front of the meter” devices could successfully participate, given that the tariff structure is better suited for behind the meter DERs.
- How the incentives would be split between the up-front and on-going portions. Several approaches could be tested through pilots.
- What the customer aggregator structure would be to participate in the tariff.

During the workshop, it was suggested that SCE review how incrementality will be determined. The Council agrees and strongly recommends that the Commission provides additional guidance to facilitate the procurement of DERs to meet distribution deferral needs.

c. Tariff Proposals that focus on incentivizing the deployment of DERs to anticipate future needs.

The Council recommends piloting a version of the *Solar Energy Industry Association (SEIA)’s Regional DER Tariff* proposal, with the modifications discussed during the workshop as well as the additional modifications described below. This proposal focuses on the long-term regional benefits that DER deployment can contribute towards reducing distribution costs in locations where marginal distribution cost data are highest in a given service territory.

SEIA’s Regional DER Tariff proposal: This proposal would pilot location specific DER tariffs that would provide additional customer compensation for adopting DERs, over and above the value, they would also receive under current DER programs such as net metering, demand

response programs, and the Self-Generation Incentive Program (“SGIP”). The justification for these location-specific tariffs is that current DER compensation programs rely on rates calculated using system average marginal costs, which do not reflect the added value of deployment in areas with local needs. In other words, these tariffs would incent adoption of DERs where demand-related marginal distribution costs are higher than the corresponding system marginal distribution cost. At present, this approach can only be tested in PG&E’s territory, due to the lack of granularity in the marginal distribution costs developed by SCE and SDG&E; however, the Council recommends moving forward with piloting the tariff in PG&E’s territory while the better definition of marginal distribution costs is developed for the other IOUs.

The Council recommends piloting this proposal with modifications. The tariff would function as described below:

1. The utility estimates the demand-related marginal distribution cost (excluding non-deferrable costs) at each of its divisions as well as the corresponding system marginal distribution cost.
2. The utility defines a tariff for those divisions with high demand-related marginal distribution costs.
 - a. The tariff for each division would be based on 75% of the difference between the marginal distribution costs for the division and the system average (in \$ per kW-year).
 - b. A minimum and a maximum tariff cost would be determined to ensure that the incentive is large enough to be meaningful and to limit the cost in those divisions with exceptionally high distribution costs.
 - c. Capacity costs would be allocated to the hours of the year and converted to \$/kWh. Peak capacity allocation factors (“PCAFs”) that utilities calculate for each of their distribution substations can be used to calculate, based on the location of each substation, location specific PCAFs for each division. These PCAFs can then be used to allocate the marginal distribution costs to the hours of the year.
 - d. The hourly DER tariff prices can be applied to the expected output (for solar or storage) or the expected time profile of energy or capacity savings (for efficiency

and demand response) for any type of DER to produce an additional payment for a customer located in one of these divisions who adopts that DER, in addition to the compensation that the customer receives under existing DER programs that are premised on system-wide retail rates using system average marginal costs.

- e. Payments would be offered for a specific number of years and would correspond, on a present value basis, to the tariffs' costs determined above for a number of years that represent a fraction of the life of the DER. The number of years that payments would be provided and the number of years of avoided costs paid would vary depending on the DER technology.

As noted, to successfully test this pilot statewide SCE and SDG&E will need to develop marginal distribution costs that can be layered on top of their existing programs. The Council believes long-term grid deferral value can be obtained if SCE & SDG&E develops these costs. Further work is also recommended to develop the tariff proposal to enable a pilot to test the ability to reduce grid needs below the threshold that triggers long term planning responses.

- 7. Which tariff proposal(s) would you oppose and why? Include in your opposition explanation whether this proposal meets the design principles, meets grid needs, manages risks, addresses incrementality, and ensures that operational requirements are met. Explain whether you would only oppose this proposal or proposal(s) as a tariff or also as a tariff pilot.**

The Council does not oppose the piloting any of the tariff proposals that were discussed during the workshop.

- 8. At this point, the record does not contain any information regarding the costs of implementing or administering the proposals. What details should the Commission know about implementation/administration costs before adopting either a proposal or a pilot?**

As noted above, the Council supports an evaluation process that enables comparison to the traditional solicitation process and that clearly documents successes, opportunities for improvements, and costs associated with each tariff proposal. One way of achieving these goals would be to require approved proposal administrators to complete an analysis of the costs and anticipated benefits of the proposal in comparison to solicitations completed for similar size project deferrals or traditional distribution upgrades. These findings should be submitted to

Energy Division Staff, compiled and utilized to help inform the DIDF tariff and solicitation process in the future.

9. What cost parameters should the Commission adopt for the proposals? What cost parameters should the Commission adopt if a proposal is piloted first?

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

10. Besides costs, is there additional information the Commission should obtain before adopting any of the proposals? Could this information be obtained through piloting the proposals?

The Council believes the piloting select proposals will provide insight into the abilities of DER tariffs to minimize procurement costs and project timelines, as well as to determine successful technology deployment strategies and test other key evaluation metrics. We encourage the Commission to hold another round of workshops to develop selected proposals further and provide for an additional round of comments once they are finalized. The Council strongly recommends that before final approval of any pilot, its proponents should provide detailed specifics, including budgets, scope, evaluation metrics, and all other material elements.

III. CONCLUSION

The Council appreciates the opportunity to provide responses to the questions posed by ALJ's April 15, 2019 Ruling. The Council recognizes the importance that DERs will play in achieving California's energy, environmental and equity goals in the future. We commend the Commission's efforts to date on establishing programs and policies that enable these technologies. We recommend that the Commission take into consideration the comments presented in these responses when deciding how to proceed regarding piloting and implementing DER tariffs, drawing emphasis to:

- The opportunity to test the ability of DER tariffs to cost-effectively defer, or avoid already-identified distribution system upgrades as well as to mitigate the need to plan for future long-term anticipated upgrades;

- The need to establish an evaluation methodology that will enable comparative analysis of chosen DER tariff proposals relative to one another and to the traditional solicitation process.

Respectfully submitted,

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