

Decision **PROPOSED DECISION OF COMMISSIONER FERRON**  
**(Mailed 11/19/2013)**

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

Petition of The Division of Ratepayer  
Advocates to Adopt, Amend, or Repeal a  
Regulation Pursuant to Pub. Util. Code  
Section 708.5.

Petition 13-05-008  
(Filed May 22, 2013)

Order Instituting Rulemaking into Policies to  
Promote a Partnership Framework between  
Energy Investor Owned Utilities and the Water  
Sector to promote Water-Energy Nexus  
Programs.

R. \_\_\_\_\_

**DECISION GRANTING PETITION AND OPENING RULEMAKING**

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## DECISION GRANTING PETITION AND OPENING RULEMAKING

### 1. Summary

This decision grants the Petition for Rulemaking of the Division of Ratepayer Advocates requesting that the Commission open a Rulemaking proceeding to develop a partnership framework between investor owned energy utilities and the water sector – both privately owned water utilities regulated by the Commission and public water and wastewater agencies - to co-fund programs that reduce energy consumption by the water sector in supplying, conveying, treating, and distributing water. In order to continue to strengthen the State of California’s ability to rely on energy efficiency as an important resource, we must develop more robust methodologies for measuring the embedded energy savings from energy efficiency and conservation measures in the water sector, and for determining the cost-effectiveness of these projects. In this rulemaking, we intend to explore how best to develop these methodologies and measure potential benefits for energy and water ratepayers in order to consider whether and how such programs should be funded in the post-2014 portfolios and beyond as well as how the costs of such programs should be allocated among participants.

Today’s rulemaking will allow the Commission, and interested parties, to focus on the water-energy policy issues in a dedicated forum. This forum will be vital in ensuring that we expeditiously consider the water-energy nexus issues in a manner that is complimentary to, and not in conflict with, the broader energy efficiency rulemaking. We believe that this new, separate rulemaking will also promote better transparency and accountability in our decision-making process. We also expect the narrower focus of this new rulemaking to encourage

increased participation by the water sector stakeholders. We look forward to developing a framework for water-energy programs that can be seamlessly integrated with the existing methods and process for evaluating the cost-effectiveness of energy efficiency, demand response, and distributed generation programs, recognizing that these existing methods are continuously evolving

## **2. Background**

The water-energy nexus and the potential benefits to both investor-owned utility (IOU) ratepayers and publicly-owned water ratepayers associated with joint water-energy efficiency programs have been a focus of the Commission for a number of years. Since 2005, the Commission's Water Action Plan has included specific goals and objectives designed to increase conservation and strengthen energy efficiency. In its 2010 revision to the plan, the Commission emphasized the importance of water-energy nexus conservation programs. In response, investor-owned water utilities have developed and implemented various plans and programs to reduce electricity consumption to implement the Water Action Plan's action items.

The energy used by the water sector in California has also been a topic in energy proceedings, including Rulemaking (R.) 09-11-014, and its predecessor R.06-04-010, the Commission's Rulemaking to examine energy efficiency policies, programs, evaluation and related issues. In Decision (D.) 07-12-050 and D.08-11-057 we authorized a set of water-energy efficiency pilot projects as well as studies of the embedded energy use in water to attempt to quantify energy savings from water efficiency projects.

In D.12-05-015, we directed staff and the IOUs to build upon past efforts on water-energy analysis and pilot projects. We recognized that the pilot

programs and embedded energy in water studies conducted pursuant to the Commission's direction in D.07-12-050 laid the groundwork for further exploration of the potential for energy savings in the water sector. We also recognized the need to develop more robust methodologies for measuring embedded energy savings from efficiency measures and determining the cost-effectiveness of energy efficiency projects in the water sector. Therefore, we directed staff to develop a comprehensive cost effectiveness framework for water-energy that would allow for the evaluation of joint water-energy efficiency projects and programs.

Specifically, we directed the IOUs to focus their applications on the source of the water to the distribution point and through the system. For their next round of energy efficiency proposals, we directed the IOUs to propose programs (or projects) designed to calculate reductions in water consumption, quantify embedded energy savings, and capture water and energy avoided costs to support cost-effectiveness determinations. We also directed the IOUs to focus their outreach to target small and medium sized water and wastewater utilities, since they are the least likely to make system improvements without IOU assisted intervention and target agricultural and industrial customers since they are large end users of water. We directed Staff to evaluate this program and report on energy savings, including embedded energy savings, avoided costs, and cost-effectiveness,

Noting that "[I]t is not prudent to spend significant amounts of ratepayer funds on expanded water-energy nexus programs until the cost-effectiveness of these programs, and particularly the net benefits that accrue to energy utility ratepayers, are better understood, we assigned Staff to "develop a robust record in the 2013-2014 application proceedings or in this or a subsequent energy

efficiency rulemaking to address strategies to overcome barriers to adoption and deployment of water energy nexus efficiency programs. The record should address appropriate methods for calculating energy savings and cost-effectiveness in the water-energy context, issues associated with the joint funding and implementation of water-energy programs by the IOUs and water entities, and the development of an updated water-energy cost-effectiveness calculator and appropriate methodologies for calculating the GHG emission reductions associated with water-energy nexus programs. This record building may include Commission Staff facilitated workshops focusing on funding sources for water-energy projects, pump and system efficiency projects, and other topics as appropriate.”

In response to the Commission’s directive, Staff created a work plan to address the water-energy nexus issues. Staff presented a proposed framework for cost effectiveness at a public workshop in March 2013. Staff also formed a Project Coordination Group for Water Energy Cost-Effectiveness (PCG) to engage water and energy industry stakeholders. The purpose of the PCG was to allow industry stakeholders to provide input and assistance to Commission staff in creating a framework to analyze demand-side programs that focus on saving both water and energy. The PCG was also tasked with helping to identify sources of information for avoided cost calculations for water savings and for embedded energy in water. This ongoing work will continue to be coordinated with this rulemaking and in the successor energy efficiency proceeding, R.13-11-005.

### 3. Division of Ratepayer Advocates Petition

On May 22, 2013, the Division of Ratepayer Advocates<sup>1</sup> (DRA) petitioned the California Public Utilities Commission to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code Section 1708.5. In its petition, DRA requests that the Commission initiate a new rulemaking to consider new policies regarding joint funding of water-energy nexus programs by the energy utilities and the water sector, and other local, state and federal agencies to which the benefits of such programs may accrue. DRA states that the petition does not seek the amendment or adoption of a regulation, but instead requests that the Commission develop policies regarding the “critical, threshold issue of joint funding of water-energy nexus programs.”

Specifically, DRA recommends that the Commission investigate approaches that: (1) provide for joint funding of water-energy nexus programs by the benefiting entities; and, (2) consider cost-effectiveness from a broader perspective by recognizing water, energy, and greenhouse gas (GHG) benefits.

DRA suggests that the broader adoption and deployment of water-energy nexus programs depends, in part, on the development of a statewide methodology to determine the energy embedded in water use. DRA acknowledges that the Commission has begun development of a cost-effectiveness methodology for computing the energy embedded in water use, but has not yet adopted any such methodology.

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<sup>1</sup> The Division of Ratepayer Advocates was renamed Office of Ratepayer Advocates effective September 26, 2013 pursuant to Senate bill (SB) 96. (See Stats. 2013, Ch.356, Sec. 42.)

For purposes of this decision, we will continue to refer to the petitioner as the Division of Ratepayer Advocates.

DRA proposes that the scope of the rulemaking include the following issues:

- The appropriate methodology for determining the energy embedded in water;
- The appropriate methodology for determining water system benefits to water sector partners, and other local, state, and federal entities to which such benefits may accrue;
- The appropriate methodology for allocating program costs among partners, e.g., Program Administrator Costs (PAC) model;
- Strategies for overcoming barriers to joint funding of water-energy nexus programs for different categories of partners, including, but not limited to, energy IOUs, Commission-regulated water utilities, public water and wastewater agencies, and local government regional networks;
- The appropriate ratemaking treatment and/or other funding mechanisms available to Commission-regulated water utilities participating in water-energy nexus program partnerships;
- Availability of additional state and/or federal funding to increase the feasibility and cost-effectiveness of water-energy nexus programs; and,
- Coordination between the proposed rulemaking and current and future energy efficiency rulemaking proceedings to ensure consistent treatment of water-energy nexus programs in the energy efficiency programs of the energy IOUs.

DRA recommends that these issues be addressed in a separate, narrow proceeding with the active participation of both the energy and water sectors. DRA further suggests that the Commission Staff's ongoing efforts to calculate avoided costs and develop a cost-effectiveness methodology in the water-energy

context should be coordinated with, and/or incorporated into this new, focused proceeding.

DRA recommends that any embedded energy in water calculator developed by the Commission include the ability to calculate water system benefits that may accrue not only to the IOUs, but also to partner water agencies, or other local, state, and federal entities. DRA urges the Commission to consider and adopt an equitable method for allocation of water-energy program costs among partners and suggests that a decision regarding a recommended allocation method may facilitate joint funding of programs.<sup>2</sup>

### **3.1. Responses to the Petition**

#### **3.1.1. Pacific Gas and Electric Company and Southern California Edison Company**

Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) collectively referred to as the “Utilities” responded to DRA’s Petition stating that while they agree with the DRA that the Commission should continue to focus on the policy structure to develop water-energy savings programs to maximize cost-effective savings of energy and water, in light of the efforts currently underway in other active proceedings to further water-energy nexus policy and partnerships, it is unnecessary to open a new rulemaking on water-energy nexus programs. The Utilities state that, consistent with Rule 6.3(f), the Commission should decline DRA’s request to open a new rulemaking.

The Utilities maintain that substantial regulatory progress with collaborations by the IOUs and other Joint Agencies has been made since 2005,

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<sup>2</sup> DRA Petition at 33.

including policy statements,<sup>3</sup> public workshops, pilot projects<sup>4</sup> and studies to quantify embedded energy.<sup>5</sup> The Utilities note that D.12-05-015 recently directed the IOUs to include specific water-energy nexus measures in their 2013-2014 energy efficiency portfolios.

The Utilities also note that while it is helpful to develop programs funded by both the IOUs and water agencies, the Commission only has jurisdiction over water agencies that serve a minority of Californians and that the Commission cannot require most water agencies to develop, fund or otherwise participate in water-energy savings programs. The Utilities state that most water customers are served by municipal water utilities not regulated by the Commission, and that the approximately 140 Commission-regulated water utilities serve about 6 million residents of California.

The Utilities support the Commission Staff's effort to create and facilitate the PCG to provide input to Staff and its consultants on developing the water-energy cost effectiveness framework, including calculations for embedded energy in water. The Utilities anticipate that the PCG will help Staff identify credible sources of information that can be used in avoided cost calculations for

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<sup>3</sup> Integrated Energy Policy Report [CEC-100-2005-007CMF], California Energy Commission, November 2005 and R.06-04-010 ACR on Process Related to the Consideration of Embedded Energy Savings Related to Water Efficiency, October 16, 2006.

<sup>4</sup> Order Instituting Rulemaking 06-04-010 to Examine the Commission's Future Energy Efficiency Policies, Administration, and Programs; D.05-10-043; at 167-168.<sup>4</sup>

3/ R.06-04-010 Preliminary Scoping Memo, April 13, 2006, at 7.

<sup>5</sup> R.06-04-010 ACR on Process Related to the Consideration of Embedded Energy Savings Related to Water Efficiency, October 16, 2006.

water and embedded energy in water, and may be asked to produce a white paper of its recommendations regarding these values.

The Utilities point out that Staff has developed an initial list of questions relevant to water/energy cost-effectiveness and that many of those issues are the same issues raised by the Petition, including avoided water costs and benefits, attribution of benefits, and data available to support the analyses. They argue that any decisions or rulings on the issues addressed by the PCG could be issued in the ongoing Energy Efficiency Rulemaking (R.09-11-014).

The Utilities maintain that the adoption of a new cost-effectiveness methodology that includes an avoided cost for water should not be procedurally delayed by the opening of a new rulemaking.

### **3.1.2. California Water Association (CWA)**

CWA also requests that the proposed rulemaking, if initiated, not impede the ongoing work of the PCG to address the cost effectiveness of water-energy nexus programs. CWA believes that the barriers to the implementation of energy efficiency projects by the investor-owned water utilities subject to the Commission's jurisdiction and should be priorities for the Commission to consider if it opens the proposed rulemaking. Additionally, if the Commission institutes such a rulemaking, CWA recommends that the Commission utilize the rulemaking process to identify credible sources of information through the PCG that may be used in avoided cost calculations for water and embedded energy in water.

CWA explains that in response to the Commission's Water Action Plan, the investor-owned water utilities have been actively pursuing energy efficiency efforts for several years but that a lack of consistency regarding the appropriate means for funding water-energy nexus programs and calculating their

cost-effectiveness has been a barrier to the implementation of these programs. CWA notes that although these issues were noted in D.12-05-015 and have also arisen in the consideration of specific projects in the course of water utilities' general rate cases, they have yet to be addressed comprehensively in any Commission proceeding.

CWA notes that in D.07-12-050 the Commission approved a few pilot programs relating to the capture of water-related embedded energy savings. The decision initially limited the scope of the pilot programs to public water agencies because no record had been developed to support partnerships between the investor-owned energy and water utilities but was subsequently modified by D.08-11-057, to permit funding for energy efficiency programs to be implemented by energy utilities in partnership with investor-owned water utilities.

CWA urges the Commission to continue to take funding challenges into account as it seeks to establish a possible framework for the distribution of program costs. CWA explains that investor-owned water utilities have limited access to funding for energy efficiency programs and their budgets for such projects are of a far lesser scale than those of the energy utilities. Moreover, CWA claims that energy efficiency and energy savings may not be considered in cost-effectiveness calculations for water utility projects, which may result in undervaluing these projects when the water utilities' conservation programs are assessed in the context of general rate case reviews.

CWA believes that the allocation of costs and benefits to energy and water ratepayers should be closely examined to ensure that the funding framework does not maintain or create disincentives for investor-owned water utilities to adopt and deploy energy efficiency programs.

CWA notes that investor-owned water utilities have faced opposition to proposals for energy efficiency infrastructure improvements in their general rate cases based on arguments that the proposed projects would not be cost-effective. However, such cost-effectiveness analysis historically has examined only water ratepayer savings and has failed to include program benefits to energy ratepayers or environmental benefits such as Greenhouse Gas Reductions. Such limited cost-effectiveness analysis has undervalued water utility energy efficiency projects and has had the undesirable effect of discouraging or impeding water utilities from implementing these programs.

According to CWA, an appropriate framework for cost-effectiveness analysis necessarily will provide for the very significant variations that exist in the availability and cost of both water and energy resources in particular regions and utility service areas. For example, for a water utility dependent on imported water or production from deep wells to meet marginal demand, the energy savings to be achieved through water conservation may be much greater than for a utility with abundant readily available local supplies. Such differences should be accounted for in assessing program cost-effectiveness.

Finally, CWA recommends that if the Commission opens a rulemaking pursuant to DRA's Petition, the rulemaking should be used to develop a framework that considers the benefits of energy efficiency efforts in the water sector for both the water and energy ratepayers and consider broader societal and environmental benefits. CWA believes that a holistic framework for calculating cost-effectiveness, with sensitivity to local supply and cost factors, would better reflect the total benefits of water-energy nexus projects and would mitigate some of the current obstacles facing water utility implementation of these projects.

### **3.1.3. The Association of California Water Agencies and California Association of Sanitation Agencies (ACWA/CASA)**

The Association of California Water Agencies (ACWA) is a statewide association of 450 public water agencies that together supply over ninety percent of the water delivered in California for residential, agricultural, and industrial uses. The California Association of Sanitation Agencies (CASA) is a statewide association of cities, counties, special districts, and joint powers agencies that provide wastewater collection, treatment, water recycling, and biosolids management services to more than ninety percent of the sewered population of California. ACWA and CASA support the comments submitted by CWA regarding the DRA petition. In particular, ACWA and CASA concur that the proposed rulemaking is consistent with the Commission's existing energy efficiency policies and recent decisions addressing the water-energy nexus, and could help to address issues that the Commission has yet to resolve. Like CWA, ACWA and CASA are participating in the PCG and recommend that the PCG effort continue, and be incorporated into the rulemaking.

ACWA and CASA applaud the IOUs efforts to expand their water-energy program initiatives and build partnerships with water and wastewater agencies. ACWA, CASA and their member agencies are participating in many of these initiatives and believe that it will be through these types of collaborative efforts that the industries can achieve real water and energy efficiencies, consistent with the goals outlined by the Commission in its Energy Efficiency Strategic Plan.

ACWA and CASA also agree with CWA that if a rulemaking is opened it should be used to develop a framework that considers the benefits of energy efficiency efforts in the water sector for both water and energy ratepayers, as well as broader societal and environmental benefits. ACWA and CASA report

that it is essential that the framework be sensitive to local supply and cost factors. Such a holistic framework would reflect the on-the-ground realities through which water sector funding decisions are made.

ACWA and CASA maintain that this type of broad evaluation is key to enabling energy utilities to claim energy savings from water-energy measures along all segments of the water supply chain on a life-cycle basis, even when the energy savings may accrue to multiple energy customers and/or multiple utilities.

ACWA and CASA disagree with the SCE and PG&E comments that the proposed DRA rulemaking is “unnecessary.” In their view, this type of continuing evolution of Commission policies and guidance for the expansion of future water-energy programs, including the next round of energy efficiency funding, is absolutely needed. They argue that the coordination of the PCG with a new rulemaking will do much to expedite the Commission's adoption of policies that facilitate greater investments in water-energy projects, by both water agencies and energy utilities throughout California, not just those that are directly regulated by the Commission.

#### **3.1.4. The Utility Consumer's Action Network**

The Utility Consumers' Action Network (UCAN) supports a rulemaking proceeding and investigation into developing a water/energy partnership framework. UCAN states that there is much work to be done to produce economically-sound methodologies that satisfy both the energy utility and water sectors. While each sector may have different practices and standards, UCAN believes that they also clearly have a common interest in conservation and energy efficiency that they can build upon.

UCAN maintains that limiting energy efficiency programs to one sector when there is a water-energy nexus or interdependence results in reduced net benefits, i.e., from co-sponsored and co-funded water-energy nexus partners. If the landscape is defined too narrowly, potential net benefits may be lost.

UCAN believes that the critical elements are knowing how to measure: (1) the energy savings embedded in water, (2) the energy (and in some cases water) savings caused by the program, (3) the cost effectiveness of programs that bridge the different water and energy sectors, (4) comparable measures of “benefits” in the two sectors, and then (5) allocating funds to the individual sectors and participants based on the benefits received. Once all these methodologies have been determined, UCAN maintains, we need to identify barriers to joint funding of these water-energy nexus programs, plus whether any other State or federal funding is available. UCAN suggests that ratemaking treatment and other funding mechanisms must be developed and the proposed rulemaking must be coordinated with current and future energy efficiency rulemaking proceedings.

#### **4. Discussion**

While much has been done since the water-energy nexus was first recognized in reports such as the California Energy Commission’s Integrated Energy Policy Report, the Commission’s Long-Term Energy Efficiency Strategic Plan, the Commission’s Water Action Plan and in our decisions in the Rulemaking into Energy Efficiency Programs, there are still a great many policy issues to consider to encourage greater investment in water-energy efficiency programs by all energy and water sector participants.

We opened this petition docket in response to a petition for rulemaking filed by DRA pursuant to Public Utilities Code Section 1708.5. That statute

authorizes “interested persons to petition the commission to adopt, amend, or repeal a regulation. As discussed further below, today’s decision grants the petition to open a rulemaking.

Although the responses to the Petition demonstrate that there is some consensus regarding the need to address specific barriers to broader implementation of water-energy nexus programs, the parties do not agree on the question of whether the Commission should open a new rulemaking as requested by DRA or whether the ongoing Energy Efficiency Rulemaking, R.13-11-005, is the appropriate procedural vehicle. As summarized above, the Utilities prefer to keep the water-energy nexus issues in R.09-11-014 (now succeeded by R.13-11-005) to avoid any potential delay or duplication that may result from opening a new proceeding. They argue that the PCG is an appropriate mechanism to address the cost-effectiveness methodology and other issues already being considered in the energy efficiency docket. Other parties, including TURN and UCAN, support DRA’s request to open a separate, formal proceeding into water-energy nexus issues to ensure that these issues are addressed in a transparent manner.

We share DRA’s belief that a new, narrowly-focused rulemaking is a better vehicle through which to address the issues presented in the petition. R.13-11-005 already includes a very ambitious scope of work and will address a number of extremely complex regulatory issues surrounding energy efficiency policies, programs, and evaluation, including program design, avoided cost calculation, cost-effectiveness methodologies, financial incentives and measurement and evaluation methods; to layer additional questions regarding the water-energy nexus issues into that docket would result in a very

cumbersome proceeding. It would also risk the water-energy issues not getting the full attention they deserve.

Moreover, we find that several of the key issues presented in the petition, including the need for joint funding of water energy nexus programs, the need for proper allocation of program costs in proportion to the benefits realized by partnering entities, and the need for targeted cost effectiveness methodologies that recognize the water and energy savings, and corresponding reduction in GHG emissions, attainable from these programs are not currently being directly addressed in R.13-11-005.

We anticipated the need to open a separate proceeding for the water-energy nexus issues in 2006, when, in a scoping ruling in R.06-04-010, the assigned commissioner stated that “at some point in the rulemaking, or another forum...the Commission should begin looking at the broader context for water-related savings, including the implementation of new water conservation measures not currently undertaken by either energy or water utilities, as well as related issues such as program co-funding by water agencies and energy utilities.<sup>6</sup>

We find that it is now time to open a new, narrowly focused rulemaking into water-energy nexus issues. Energy efficiency remains first in the “loading order” of preferred resources for meeting the state’s demand for electricity (before demand response and renewable energy).<sup>7</sup> Energy efficiency is also

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<sup>6</sup> *Assigned Commissioner’s Ruling and Scoping Memo and Notice of Phase 1 Workshops on Risk/Return Incentive Mechanism*, dated May 26, 2006, R.06-04-010, at 13-15.

<sup>7</sup> See *Energy Action Plan*, adopted in 2005 by the California Public Utilities Commission and the California Energy Commission at 2.

critical to meeting the GHG emissions reduction goals required by the Global Warming Solutions Act of 2006.<sup>8</sup> Recognizing that water-related energy use accounts for a significant portion of the state's total energy requirements, water systems efficiency is a critical tool to capture additional water/energy nexus benefits in the energy efficiency program.

We anticipate that several of the questions that will be raised in this rulemaking are included in the work plan that Commission Staff has developed which includes the PCG input. We intend to continue to move forward with the Commission Staff's current efforts to conduct analyses on water-energy cost effectiveness. We are encouraged that many participants, including public and private water agencies, have expressed interest in giving input throughout the development of this framework.”<sup>9</sup> The work plan that staff is implementing, along with PCG participation, will allow us to move forward expeditiously on these issues.

The Utilities contend that Rule 6.3(f) precludes the Commission from granting the petition because the Commission has acted upon, or refrained from acting upon, the issues addressed by petition in the last twelve months.<sup>10</sup> Specifically, the Utilities argue that the Commission has considered these issues in R.09-11-004 and in IOUs' 2013-2014 Energy Efficiency Portfolio applications

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<sup>8</sup> Assembly Bill 32.

<sup>9</sup> Utilities at 10.

<sup>10</sup> Rule 6.3(f) states that “[t]he Commission will not entertain a petition for rulemaking on an issue that the Commission has acted upon or decided not to act on within the preceding 12 months.”

(Application (A.) 12-07-001, et al.), within the last year; and this is a sufficient basis to deny the petition under Rule 6.3(f).

DRA maintains that because the Commission has only broadly addressed these issues in D.12-05-015, the Commission is not now precluded from addressing them through a new proceeding. Specifically, DRA notes that although the Commission directed the IOUs to submit proposals for water energy efficiency nexus programs, neither the proposals for water-energy nexus programs contained in the applications nor the supplemental information provided in response to an Administrative Law Judge (ALJ) ruling, comprehensively address the issues associated with the joint funding and implementation of water-energy programs as required by D.12-05-015.

We agree with DRA that we are not barred under Rule 6.3(f) from opening the new rulemaking. While we have begun work on water-energy nexus issues in several proceedings in recent years, the core policy concerns presented in DRA's petition and supported by CWA among others, have not been directly addressed.

Moreover, there are other, important policy considerations that weigh in favor of opening a new proceeding: the need for transparency and a formal record of our decision making; and the concern that interested parties may not be able to participate in the PCG or other informal processes.

It is clear that continuing evolution of our policies is necessary, therefore, this rulemaking will build off the work that has begun in R.09-11-014 and through the PCG and develop a process to work together with the energy IOUs, public water agencies, water IOUs, and other stakeholders to address barriers to broader implementation of water-energy nexus programs.

The objectives of this new Rulemaking approach are consistent with the mandate established in Public Utilities Code Section 454.5.(b)(9)(c), the Energy Action Plan and past Commission decisions promoting energy and resource efficiency.<sup>11</sup>

## 5. Preliminary Scoping Memo

Our goal is to develop a cost-effectiveness framework for analyzing the value of energy and water efficiency programs that save energy and water simultaneously. The record in this rulemaking should therefore consider appropriate methods for calculating energy savings and cost-effectiveness in the water-energy context, issues associated with the joint funding and implementation of water-energy programs by the IOUs and water entities, the development of water-energy cost-effectiveness calculations and appropriate methodologies for calculating the GHG emission reductions associated with water-energy nexus programs. As we move forward, the record building may require continued focus group discussions, workshops, testimony, evidentiary hearings, and briefing as necessary. At this time, we preliminarily determine that the following areas of concern are within the scope of this Rulemaking:

- The appropriate methodology for determining the energy embedded in water;
- The appropriate methodology for determining water system benefits to water sector partners, and other local, state, and federal entities to which such benefits may accrue;

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<sup>11</sup> Public Utilities Code Section 454.5(b)(9)(c) states: “The electrical corporation will first meet its unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.”

- The appropriate methodology for allocating program costs among partners, e.g., PAC model;
- Strategies for overcoming barriers to joint funding of water-energy nexus programs for different categories of partners, including, but not limited to, energy IOUs, Commission-regulated water utilities, public water and wastewater agencies, and local government regional networks;
- The appropriate ratemaking treatment and/or other funding mechanisms available to Commission-regulated water utilities participating in water-energy nexus program partnerships;
- Availability of additional state and/or federal funding to increase the feasibility and cost-effectiveness of water-energy nexus programs; and
- Coordination between the proposed rulemaking and current and future energy efficiency rulemaking proceedings to ensure consistent treatment of water-energy nexus programs in the energy efficiency programs of the energy IOUs.

In addition, we will consider whether the existing ratemaking mechanisms for recovery of energy costs are consistent with our efforts to strengthened energy conservation public safety concerns raised by the issues identified above will also be included in the scope of this proceeding.

While we establish the preliminary scope of work above, given the interdependence of water and energy and the potential for both water and energy savings through co-funded “water-energy nexus programs” and the multiple issues to be resolved, the final scope will be determined at a later date following a prehearing conference and additional workshops or briefing. We also recognize the need to carefully coordinate any overlapping issues between this proceeding and R.13-11-005.

## **6. Schedule**

The assigned Commissioner or ALJ will schedule a Prehearing Conference (PHC) as soon as practicable. A preliminary schedule for this proceeding will be discussed at the first PHC. Those who wish to file comments on the issues identified in this Order Instituting Rulemaking (OIR) shall submit and serve their comments in accordance with the schedule identified at the first PHC or as established by the assigned Commissioner or ALJ ruling.

This proceeding will conform to the statutory deadline for ratesetting matters set forth in Section 1701.5. Consistent with Rule 6.2, of the Commission's Rules of Practice and Procedure, (Rules) and the statutory case management deadline for ratesetting matters set forth in Publ. Util. Code Section 1701.5.(b), we expect this proceeding to be concluded within 24 months of the issuance of the assigned Commissioner's Scoping Memo and Ruling. In using the authority granted in Section 1701.5(b) to set a timeframe longer than 18 months, we consider the complexity of the policy issues identified in this rulemaking and the number and multi-jurisdictional nature of the parties anticipated to be involved in this proceeding.

## **7. Categorization and Need for Hearing**

Rule 7.1(d) provides that the order instituting rulemaking shall preliminarily determine the category of the proceeding and the need for hearings. Our preliminary determination is that this Rulemaking is ratesetting, as that term is defined in Rule 1.3. While we expect that issues may be resolved through comments and workshops without the need for evidentiary hearings, a final determination on the need for hearings will be made in the assigned Commissioner's Scoping Memo Ruling.

## 8. Respondents

The Respondents to this Rulemaking are PG&E, SCE, SDG&E, SoCalGas and each of the Class A Water utilities.

## 9. Becoming a Party; Joining and Using the Service List

This Rulemaking will be served on the service for Petition 13-05-009, R.09-11-014, and R.13-11-005. Such service does not confer party status in this proceeding upon any person or entity, and does not result in that person or entity being placed on the service list for this proceeding. If you want to participate in the Rulemaking or simply monitor it, follow the procedures set forth below. To ensure you receive all documents, send your request within 30 days after the Order Instituting Rulemaking is published. The Commission's Process Office will public the official service list at the Commission's website ([www.cpuc.ca.gov](http://www.cpuc.ca.gov)) and will update the list as necessary.

## 10. During the First 30 Days

Within 30 days of the publication of this Rulemaking, any person may ask to be added to the official service list. Send your request to the Process Office. You may use email (Process\_Office @cpuc.ca.gov) or letter (Process Office, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102). Include the following information:

- Docket Number of this Rulemaking;
- Name (and party represented, if applicable);
- Postal Address;
- Telephone Number;
- E-mail Address; and

- Desired Status (Party, State Service or Information Only).<sup>12</sup>

### **11. After the First 30 Days**

If you want to become a party after the first 30 days, you may do so by filing and serving timely comments in the Rulemaking (Rule 1.4(a)(2)), or by making an oral motion (Rule 1.4(a)(3)), or by filing a motion (Rule 1.4(a)(4)). If you make an oral motion or file a motion, you must also comply with Rule 1.4(b). These rules are in the Commission's Rules of Practice and Procedure, which you can read at the Commission's website.

### **12. Updating Information**

Once you are on the official service list, you must ensure that the information you have provided is up-to-date. To change your postal address, telephone number, e-mail address, or the name of your representative, send the change to the Process Office by letter or e-mail, and send a copy to everyone on the official service list.

### **13. Serving and Filing Documents**

When you serve a document, use the official service list published at the Commission's website as of the date of service. You must comply with Rules 1.9 and 1.10 when you serve a document to be filed with the Commission's Docket Office. If you use e-mail service, you must serve by e-mail any person (whether Party, State Service, or Information Only) on the official service list who has provided an e-mail address.

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<sup>12</sup> If you want to file comments or otherwise actively participate, choose "Party" status. If you do not want to actively participate but want to follow events and filings as they occur, choose "State Service" status if you are an employee of the State of California, otherwise choose "Information Only" status.

The Commission encourages electronic filing and email service in this Rulemaking. You may find information about electronic filing at <http://www.cpuc.ca.gov/PUC/efiling>. E-mail service is governed by Rule 1.10. If you use e-mail service, you must also provide a paper copy to the assigned Commissioner and ALJ. The electronic copy should be in Microsoft Word or Excel formats to the extent possible. The paper copy should be double-sided. E-mail service of documents must occur no later than 5:00 p.m. on the date that service is scheduled to occur.

If you have questions about the Commission's filing and service procedures, contact the Docket Office.

#### **14. Public Advisor**

Any person or entity interested in participating in this Rulemaking who is unfamiliar with the Commission's procedures should contact the Commission's Public Advisor in San Francisco at (415) 703-2074 or (866) 849-8390 or e-mail [public.advisor@cpuc.ca.gov](mailto:public.advisor@cpuc.ca.gov); or in Los Angeles at (213) 576-7055 or (866) 849-8391, or e-mail [public.advisor.la@cpuc.ca.gov](mailto:public.advisor.la@cpuc.ca.gov). The TTY number is (866) 836-7825.

#### **15. Intervenor Compensation**

Any party that expects to claim intervenor compensation for its participation in this Rulemaking shall file its notice of intent to claim intervenor compensation no later than 30 days after the date of the Scoping Memo.

#### **16. Ex Parte Communications**

Communications with decisionmakers and advisors in this Rulemaking are governed by Article 8 of the Rules of Practice and Procedure.

**Finding of Fact**

It is reasonable to grant the petition of the Division of Ratepayer Advocates.

**O R D E R****IT IS ORDERED** that:

1. A rulemaking is opened into developing a partnership framework between investor owned energy utilities and the water sector – both privately owned water utilities regulated by the Commission and public water and wastewater agencies – to co-fund programs that reduce energy consumption by the water sector in supplying, conveying, treating, and distributing water. This proceeding may result in the adoption of rules, regulations, or guidelines addressing water-energy nexus issues.
2. The Petition filed on May 22, 2013, by the Division of Ratepayer Advocates is granted.
3. Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas and Electric Company, Southern California Gas Corporation, and all Class A water utilities, including: California Water Service Company; Golden State Water Company; Great Oaks Water Company; San Jose Water Company; California-American Water Company; Park Water Company; San Gabriel Valley Water Company; Suburban Water Systems; Valencia Water Company; and Apple Valley Ranchos Water Company, are respondents to the proceeding.
4. The Executive Director will serve this Order on the service lists for Petition 13-05-008 and Commission Rulemaking (R.) 09-11-014 and R.13-11-005.

5. Within 45 days of the filing of this rulemaking, any party that chooses to file comments authorized by Rule 6.2 of the Rules of Practice and Procedure must state its objections to the preliminary scoping memo regarding category, need for hearing, issues to be considered, or schedule.

6. Any party that expects to claim intervenor compensation for its participation in this rulemaking must file its notice of intent to claim intervenor compensation within 30 days of the filing of reply comments, except that notice may be filed within 30 days of a prehearing conference in the event that one is held. (See Rule 17.1(a)(2).)

7. The category for this Order Instituting Rulemaking, as defined herein, is determined to be ratesetting as that term is defined in Rule 1.3 of the Commission's Rules of Practice and Procedure.

8. As soon as practicable, the assigned Commissioner or Administrative Law Judge will schedule a prehearing conference in this Order Instituting Rulemaking.

9. Petition 13-05-008 is closed.

10. All filings made after the filing of this Order must bear only the caption docket number for this rulemaking.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.