

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

ENERGY DIVISION

**RESOLUTION E-4850**  
May 25, 2017

**R E S O L U T I O N**

Resolution E-4850. Approval with modifications to the proposal of Southern California Edison, San Diego Gas & Electric, and Pacific Gas and Electric to revise Electric Rule 21 and associated interconnection applications and agreements to establish the Cost Envelope Option Pilot pursuant to Decision 16-06-052.

**PROPOSED OUTCOME:**

- This Resolution approves, with modifications, the proposal of Southern California Edison, San Diego Gas & Electric, and Pacific Gas and Electric to revise Electric Rule 21 and associated interconnection applications and agreements to establish the Cost Envelope Option Pilot pursuant to Decision 16-06-052.

**SAFETY CONSIDERATIONS:**

- There is no expected impact on safety.

**ESTIMATED COST:**

- Per D.16-06-052, the Cost Envelope framework is expected to benefit ratepayers by reducing the impact of inaccurate cost estimates on financing costs for distributed energy projects.

**By:**

- Southern California Edison (SCE) Advice Letter (AL) 3458-E, filed August 22, 2016, as modified by SCE Supplemental Advice Letter 3458-E-A, filed December 15, 2016;
- Pacific Gas & Electric (PG&E) AL 4894-E, filed August 22, 2016, as modified by PG&E Supplemental AL 4894-E-A, filed September 2, 2016 and PG&E Supplemental AL 4894-E-B, filed December 30, 2016; and
- San Diego Gas & Electric (SDG&E) AL 2945-E, filed August 22, 2016, as modified by SDG&E Supplemental AL 2945-E-A, filed December 16, 2016.

**SUMMARY**

On August 22, 2016, Southern California Edison (SCE), San Diego Gas & Electric (SDG&E), and Pacific Gas & Electric (PG&E) – collectively referred to as the investor owned utilities (IOUs) – filed Tier 2 advice letters in accordance with Decision (D.) 16-06-052. The advice letters proposed revisions to Rule 21 establishing a “Cost Envelope” of 25 percent for interconnection-related expenses.

The Commission finds the IOU advice letters, as modified by the supplemental filings, largely comply with the Decision and give effect to its mandate to pilot a cost envelope framework in Rule 21.

The Commission partially grants the relief requested by the protests of the Interstate Renewable Energy Council and requires that the IOUs:

- Modify Rule 21, Sections F.7.e, F.7.f, and (if necessary) F.3.b.v, such that revisions to the Cost Envelope Estimate, when needed, are performed under the same timeframes as the original estimate. This applies to each step in the cost estimate process with an associated prescribed timeframe under Rule 21. The net result should be that the revised cost estimate should not take longer than the original cost estimate to complete.
- Provide Energy Division with copies of all executed Generator Interconnection Agreements using the Cost Envelope Option approach for 12 months following the effective date of this Resolution, so that Energy Division may review the level of cost detail provided to those who elect the Cost Envelope Option. Energy Division shall work with interested stakeholders to provide non-confidential versions of cost documentation upon request.

The advice letters fulfill the requirements of the Decision and are therefore approved, subject to the modifications listed above. The IOUs are directed to file a Tier 1 compliance advice letter implementing the modifications specified herein within 14 calendar days of the effective date of this Resolution.

**BACKGROUND**

D.16-06-052 directed the IOUs to file Tier 2 advice letters proposing revisions to Electric Tariff Rule 21 establishing a cost envelope of 25 percent for interconnection-related expenses. The “Cost Envelope Option” must include the following elements:

- A developer’s responsibility for eligible interconnection costs is limited to 25 percent over or under the Cost Envelope Estimate provided by the utility on the Generator Interconnection Agreement signed by both parties.
- For actual costs above or below 25 percent of the Cost Envelope Estimate (as netted over all projects electing the Cost Envelope Option), the utility may seek recovery in its General Rate Case, subject to reasonableness review.
- The Cost Envelope shall be available to projects applying under the Fast Track and Independent Study Processes.
- Fast Track projects seeking to elect the Cost Envelope must pay a new \$2,500 deposit following completion of Initial and Supplemental Review and allow an additional 20 business days for the utility to develop the estimate.
- Independent Study projects seeking to elect the Cost Envelope must pay the required deposits and complete both a System Impact Study and Interconnection Facilities Study.
- Estimated and actual cost documentation provided to a developer shall be itemized, such that a developer and the Commission can understand the exact breakdown of labor, Operations and Maintenance, and capital expenditures for each job activity and installed piece of equipment.
- The Cost Envelope Option shall be made available for a five-year pilot period.

On August 22, 2016, the IOUs filed timely advice letters with proposed modifications to Rule 21 to implement the Cost Envelope. The IOUs added a new section, F.7, to implement the bulk of requirements and processes applicable to the Cost Envelope, and made changes to a number of other relevant sections in Rule 21.

Because of its relevance to the main protest issue at hand, we describe one of these changes here in further detail. The IOUs proposed two sub-sections in Rule

21 addressing cases where an interconnection applicant may need revisions to the Cost Envelope Estimate:

- Section F.7.e: When an earlier-queued interconnection request is withdrawn, shifting responsibility for some costs to the later queued applicant; and
- Section F.7.f: When an applicant wants to make modifications to their interconnection facilities.

In both sections, the IOUs did not specify a timeframe in which the utility would complete the revision, but rather proposed a process whereby the utility would provide the applicant an “estimate of the cost and time required to update the Cost Envelope Estimate.”

On August 30, 2016, PG&E filed a substitute sheet to correct an omitted reference in the original Advice Letter 4894-E. On September 2, 2016, PG&E filed Advice Letter 4894-E-A to correct and modify the Cost Envelope Option documents for non-NEM applicants. A concurrent advice letter, 4909-E, was filed for the NEM Cost Envelope Option forms.

## **NOTICE**

Notice of SCE AL 3458-E/E-A, PG&E AL 4894-E/E-A/E-B, and SDG&E AL 2945-E/E-A was made by publication in the Commission’s Daily Calendar. The IOUs each state that a copy of their advice letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

## **PROTESTS**

### *Protest of IREC*

On September 12, 2016, the Interstate Renewable Energy Council (IREC) submitted a protest requesting the following:

- The term “Reasonable Efforts” be struck from Sections F.2.e and F.7.d
- Revisions to the Cost Envelope Estimate, if needed, be completed within the timeframe allowed for the original estimate, which IREC cited as 20 business days

*Joint IOUs' Reply*

On September 19, 2016, SCE filed a reply to IREC's protest on behalf of PG&E and SDG&E. The IOUs:

- Agreed that the term "Reasonable Efforts" should be struck from Sections F.2.e and F.7.d.
- Proposed additional language to guarantee a 20-day timeframe for revisions to the Cost Envelope Estimate, if needed, for Fast Track projects that have made modifications to the physical location of the customer's equipment and/or interconnection routing that would only impact the Cost Envelope Estimate as described in Section F.7.f.
- Requested that in the case of projects for which one or more earlier-queued interconnection requests withdraw or are otherwise delayed, shifting responsibility for certain interconnection costs to later queued Applicants, the Commission approve the language in Section F.7.e as proposed.

*Supplemental Advice Letters 3458-E-A (SCE), 4894-E- B (PG&E), and 2945-E-A (SDG&E)*

On December 15, 16, and 30, 2016, SCE, SDG&E, and PG&E respectively filed supplemental advice letters modifying in part the original advice letters. These supplements addressed the issues raised in IREC's protest by:

- Deleting the term "Reasonable Efforts" in Sections F.2.e and F.7.d
- Proposing additional language in Section F.7.f to guarantee a 20 day timeframe for revisions to the Cost Envelope Estimate, if needed, for Fast Track projects that have made modifications to the physical location of the customer's equipment and/or interconnection routing that would only impact the Cost Envelope Estimate as described in Section F.7.f.

At the request of Energy Division, the IOUs also expressly acknowledged in their supplemental filing that the estimated and actual cost documentation provided to the developer "shall be itemized, such that a developer and the Commission

can understand the exact breakdown of labor, Operations and Maintenance, and capital expenditures for each job activity and installed piece of equipment.”<sup>1</sup>

#### *IREC’s Response to the Supplemental Advice Letters*

On January 6, 2017, IREC filed a response to the supplemental advice letters focusing on the language added to address cost itemization. In its response, IREC made the following points:

- It was not clear from the utility filings whether the level of specificity proposed by the IOUs satisfies the express requirement of D.16-06-052 and thus any Commission resolution approving the advice letters should be clear regarding the detail expected in future cost estimates
- Given the utilities were provided additional time to develop cost estimates for the Cost Envelope, it is reasonable to expect the actual cost estimates provided under the Cost Envelope be at least as detailed as the cost categories in the utilities’ unit cost guides

#### *IOU Replies to IREC’s Response*

On January 13, 2017, SCE and SDG&E filed replies to IREC’s response to the supplements, and on January 26, 2017, PG&E filed its reply. The IOUs stated the following:

- The language represented in the supplemental filing tracks verbatim to the cost detail requirement in the Decision
- There will be additional opportunities to engage with stakeholders to discuss and/or implement refinements to the Cost Envelope Pilot’s cost documentation because the Commission has ordered the IOUs to host workshops at least semi-annually
- The IOUs anticipate leveraging their published Unit Cost Guides when they develop the Cost Envelope Estimates for projects participating in the Cost Envelope Pilot

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<sup>1</sup> D.16-06-052, p. 32.

**DISCUSSION**

The Commission finds the IOU advice letters, as modified by the supplemental filings, largely comply with the Decision and give effect to its mandate to pilot a cost envelope framework in Rule 21. Below, the Commission discusses the three issues raised by IREC in its protest to the original advice letters and response to the supplemental filings. The three issues are:

1. The term “Reasonable Efforts” should be struck from Sections F.2.e and F.7.d (from IREC’s protest to the original advice letters)
2. Revisions to the Cost Envelope Estimate, if needed, should be completed within the timeframe allowed for preparation of the original estimate, which IREC cites as 20 business days (from IREC’s protest to the original advice letters)
3. SCE should provide more detail on whether the level of cost itemization proposed by SCE satisfies the express requirement of D.16-06-052 (from IREC’s response to the supplemental advice letters)

***Issue 1: The term “Reasonable Efforts” should be struck from Sections F.2.e and F.7.d***

IREC’s protest requested that the IOUs strike the term “Reasonable Efforts” from Sections F.2.e and F.7.d of Rule 21, and the IOUs implemented the corresponding modifications in their supplemental filings. The Commission approves the modification.

***Issue 2: Revisions to the Cost Envelope Estimate, if needed, should be completed within the timeframe allowed for preparation of the original estimate***

IREC requested that the IOUs modify Sections F.7.e and F.7.f to require the utility to complete revisions to the cost estimate, if needed, within the timeframe allowed for preparation of the original estimate, which IREC cited as 20 business days.

The Joint IOUs agreed with IREC's 20-day proposal in the case of Fast Track projects seeking to make minor modifications<sup>2</sup> as described in Section F.7.f, and made the modifications in their supplemental filings. The Commission approves the modification.

The Joint IOUs did not respond to IREC's proposal in the case of Independent Study projects seeking to make modifications, addressed in proposed Section F.7.f, and rejected IREC's proposal in the case of Fast Track and Independent Study projects impacted by the delay or withdrawal of an earlier-queued project, addressed in proposed Section F.7.e.

The Commission agrees with IREC's argument that revisions to the Cost Envelope Estimate should be completed within the same timeframe allowed for original preparation of the estimate. However, determining the timeframe allowed for original preparation of the estimate is not straightforward because the utilities may use information from more than one study to develop the Cost Envelope Estimate:

- For Fast Track projects, the utilities use information from the Initial Review Study (15 business days) and Supplemental Review Study (20 business days) to inform the Cost Envelope Estimate. The Estimate itself is completed after these studies have been performed, within 20 days following receipt of the cost envelope deposit.
- For Independent Study projects, the utilities use information from the System Impact Study (60 business days) and Interconnection Facilities Study (60 business days) to inform the Cost Envelope Estimate. The Estimate itself is completed as part of the Interconnection Facilities Study.<sup>3</sup>

Rule 21 additionally prescribes timeframes between the performance of each study to allow for communication and information sharing between the

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<sup>2</sup> E.g., minor adjustments to physical location of switchgear or other equipment, adjustments to routing of conductor from the Point of Common Coupling to the Point of Interconnection, etc.

<sup>3</sup> Proposed Section F.3.b.v states that non-material modifications may still necessitate the need to reevaluate the System Impact Study to determine modifications in order to update the Estimate.

applicant and utility, and to allow the applicant to choose how/whether to continue with the Rule 21 process.

While it is not possible to set one timeframe for completion of the various steps needed to revise the Estimate, we agree with IREC's sentiment that the timeframe to complete the revision should not be left open-ended. The Commission thus partially grants the relief requested by IREC by directing the IOUs to make the following modifications.

### *Modifications*

The Commission directs the IOUs to modify Rule 21, Sections F.7.e, F.7.f, and (if necessary) F.3.b.v, such that revisions to the Cost Envelope Estimate, when needed, are performed under the same timeframes as the original estimate. This applies to each step in the cost estimate process with an associated prescribed timeframe under Rule 21. The net result should be that the revised cost estimate should not take longer than the original cost estimate to complete.

The Commission directs the IOUs to implement the requested modifications via a Tier 1 Advice Letter within 14 calendar days of the effective date of this Resolution.

### ***Issue 3: SCE should provide more detail on whether the level of cost itemization proposed by SCE satisfies the express requirement of D.16-06-052***

D.16-06-052 requires utilities to provide itemized cost documentation to a developer, such that the developer and the Commission can understand the exact breakdown of labor, Operations and Maintenance, and capital expenditures for each job activity and installed piece of equipment.<sup>4</sup> IREC expressed concern that the level of cost itemization proposed by the IOUs was too vague and may not comport with the Commission's decision or the broader intent of the cost envelope process. IREC suggested the utilities could be more explicit about how they will itemize costs, perhaps by providing examples of cost documentation.

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<sup>4</sup> D.16-06-052, p. 32.

The Commission finds the IOUs' language on cost itemization to track closely the language in D.16-06-052, thus the Commission finds the level of specificity proposed by the utilities to be in compliance with D.16-06-052.

The Commission agrees with IREC that providing examples of cost documentation would help to assure stakeholders that the cost itemization provisions of the decision will be fully implemented. We understand, however, that the utilities are currently updating their business and information technology systems to be able to provide labor, operations and maintenance, and capital costs for each job activity and piece of equipment installed for a project, and are not yet in a position to provide examples of such cost itemization with a high degree of confidence. Thus, we find it prudent to put into place a mechanism for ensuring the level of detail provided to applicants comports with the letter and spirit of the Decision's cost itemization provisions.

#### *Modifications*

For 12 months following the effective date of this Resolution, the IOUs shall provide Energy Division with copies of all executed Generator Interconnection Agreements using the Cost Envelope Option approach, so that Energy Division may review the level of cost detail provided to those who elect the Cost Envelope Option. Copies of executed Generator Interconnection Agreements shall be sent to [EnergyDivisionCentralFiles@cpuc.ca.gov](mailto:EnergyDivisionCentralFiles@cpuc.ca.gov). After 12 months, Energy Division shall have the option to renew the reporting requirement if it finds that the further disclosure is necessary to ensure the level of detail provided to applicants comports with the Decision's cost itemization provisions.

Energy Division will work with interested stakeholders to provide non-confidential versions of cost documentation upon request.

#### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for

comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

## **FINDINGS**

1. Advice Letters 3458-E/E-A (Southern California Edison), 4894-E/E-A/E-B (Pacific Gas & Electric), and 2945-E/E-A (San Diego Gas & Electric) largely comply with Decision 16-06-052 and give effect to its mandate to pilot a cost envelope framework in Rule 21.
2. The IOUs' proposed revision to Section F.7.f to complete revisions to the Cost Envelope Estimate within 20 business days in the case of Fast Track projects seeking to make minor modifications, is approved.
3. It is reasonable to require the IOUs to complete revisions to the Cost Envelope Estimate within the same timeframe allowed for original preparation of the estimate.
4. There is not a single timeframe under Rule 21 for original preparation of the estimate because the utilities may use information from more than one study to develop the estimate.
5. The language on cost itemization in the IOU supplemental filings closely tracks the language in D.16-06-052, thus the level of cost itemization proposed by the utilities is in compliance with D.16-06-052.
6. Providing examples of cost documentation would help to assure stakeholders that the cost itemization provisions of the decision will be fully implemented, however the IOUs are currently updating their business and information technology systems to be able to provide labor, operations and maintenance, and capital costs for each job activity and piece of equipment installed for a project, and are not yet in a position to provide examples of such cost itemization with a high degree of confidence.
7. It is prudent to put into place a future mechanism for ensuring the level of detail provided to applicants comports with the letter and spirit of the Decision's cost itemization provisions.

## **THEREFORE IT IS ORDERED THAT:**

1. SCE AL 3458-E/E-A, PG&E AL 4894-E/E-A/E-B, and SDG&E AL 2945-E/E-A are approved as modified in this Resolution.

2. The IOUs shall modify Rule 21, Sections F.7.e, F.7.f, and (if necessary) F.3.b.v, such that revisions to the Cost Envelope Estimate, when needed, are performed under the same timeframes as the original estimate. This applies to each step in the cost estimate process with an associated prescribed timeframe under Rule 21. The net result should be that the revised cost estimate should not take longer than the original cost estimate to complete.
3. The IOUs shall file a Tier 1 compliance advice letter implementing the modifications specified herein within 14 calendar days of the effective date of this Resolution.
4. For 12 months following the effective date of this Resolution, the IOUs shall provide Energy Division with copies of all executed Generator Interconnection Agreements using the Cost Envelope Option approach, so that Energy Division may review the level of cost detail provided to those who elect the Cost Envelope Option. Copies shall be sent to EnergyDivisionCentralFiles@cpuc.ca.gov.
5. After 12 months, Energy Division shall have the option to renew the reporting requirement if it finds that continued disclosure is necessary to ensure the level of detail provided to applicants comports with the Decision's cost itemization provisions.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 25, 2017; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director