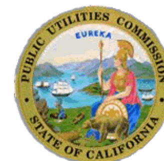

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Investigate and Design Clean Energy Financing Options for Electricity and Natural Gas Customers.	Rulemaking 20-08-022 (Filed August 27, 2020)

REPLY COMMENTS OF THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION

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REPLY COMMENTS OF THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION

Pursuant to the Assigned Commissioner's Amended Scoping Memo and Ruling dated November 19, 2021 (Amended Scoping Ruling), the Local Government Sustainable Energy Coalition (LGSEC) submits these Reply Comments in response to parties' Clean Energy Financing Options (CEFO) comments.

LGSEC principally addresses Southern California Edison Company's (SCE), and to a lesser extent Pacific Gas and Electric Company's (PG&E), generally groundless assertions that the proposed decarbonization incentive rate (DIR) is out of scope, regulatorily precarious, and would result in cost shifts. Based on plain language, common sense, a proper understanding of the analytical basis to determine cost shifting, and Commission precedence, the arguments the investor-owned utilities' (IOU) make to support their claims can be more aptly and factually understood to indicate exactly opposite of their claims.

Rates are within Proceeding Scope

SCE begins its Comments by stating that it "…appreciates the tremendous collective effort involved in developing, drafting, and revising the CEFO proposals filed with the California Public Utilities Commission (Commission or CPUC)."[1] Yet it, and PG&E, waited for months, and participated alongside LGSEC in multiple workshops, before objecting to even consideration of the decarbonization incentive rate proposal. The utilities had ample opportunity to file a motion, pose a direct question in a workshop, or even informally communicate with LGSEC about their scope concerns. They did none of these things.

[1] Southern California Edison Company's (U 338-E) Opening Comments on Clean Energy Financing Proposals, page 1.

The timing of the IOU's out-of-scope claims reflects anything but appreciation, is entirely disingenuous, and violates any sense of fair play. If endorsed by the Commission, it would severely dampen non-IOU parties' willingness to engage in expensive and time-consuming proceedings, lest the rug be pulled out of them at the last minute. On this basis alone SCE and PG&E's belated claims should be rejected.

Regardless of the lateness of the IOU's assertions, LGSEC's DIR proposal is firmly within the proceeding scope. As Edison acknowledges, the Rulemaking was issued to request that parties develop "clean energy financing options" proposals, and "…the Commission *did not limit* what financing options parties could propose." (Emphasis added.) Both Edison and PG&E assert that since rates were not included in the scoping memorandum's list examples of possible financing mechanisms it should be excluded, while simultaneously acknowledging that "…these guidelines *were not exhaustive*…"[2] (Emphasis added.)

Rates are frequently used as financing mechanisms, including in California.[3] As discussed in LGSEC's previous submissions, CPUC-approved rates have or are being deployed to spur investment in employment and economic development, finance shifts from diesel to electric engines, site battery storage, and install photovoltaics.[4] This is especially true when rates are attached to programmatic approaches to energy transformation, as LGSEC is proposing in this proceeding: marginal cost-based rates would be used to attract financing to decarbonize

[2] Pacific Gas and Electric Company's (U 39 M) Clean Energy Financing Options Opening Comments, page 2.

[3] See for example, Shahrouz Abolhosseini and Almas Heshmati, The Main Support Mechanisms to Finance Renewable Energy Development, IZA, https://repec.iza.org/dp8182.pdf, May 2014.

[4] The Local Government Sustainable Energy Coalition's Proposal To Pilot A Decarbonization Rate, April 15. 2022, p. 13.

homes and businesses. As pointed out by VEIC, "(s)everal proposals in this proceeding, in fact, directly apply customer bill savings to finance electrification projects."[5]

While these rates are typically adopted in general rate cases (GRCs) or Rate Design Windows, there is no Commission requirement that these proceedings are the only forums for such consideration, as suggested by PG&E. In fact, the Commission has regularly adopted clean financing-related rates associated with electric vehicle charging, residential load shifting, to incent photovoltaics, in multiple different proceedings, including as part of pilots. Both the economic development and AG-ICE rates were endorsed in separate applications.

In making its case to exclude the DIR from consideration SCE misinterprets the Amended Scoping Ruling to mean exactly the opposite of what it actually says. The Ruling states,

> Many of the clean financing options proposed in party comments to the proceeding, and discussed during the workshop, *would require the utilities to develop new tariffs* or would require the Commission to identify new funding sources for incremental financing programs. As such, the category for this proceeding shall remain ratesetting.[6] (Emphasis added.)

That is, the Commission categorized the proceeding as *rate-setting* because consideration of rates, now and the future – including as part of advice letter filings, as proposed by LGSEC – was on the table, QED.

Contrary to SCE's and PG&E's assertions, LGSEC's DIR proposal does not require extensive examination of new and unevaluated concepts. The DIR fundamentally relies on marginal cost findings that have been fully vetted by interested parties in the IOU's GRCs and

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[5] Opening Comments of VEIC To Assigned Commissioner's Ruling Seeking Party Feedback On IOU And Party Clean Energy Financing Proposal, page 8.

[6] Italics added, R.20-08-022, p. 28.

adopted by the Commission.[7] As pointed out in LGSEC's opening comments, the Economic Development Rate (EDR) tariff uses exactly the same methodological approach. LGSEC is specially *not* requesting any modifications to vetted and adopted costs. There is no need to re-examine them in this proceeding.

The CPUC's entire regulatory system is predicated on a web of decisions, large and small, made in a myriad of proceedings, that make up the cloth on which utility services are provided, priced, and consumed. If this system is to adhere, a decision made in one docket must have primacy in every other docket. A rate that relies on already adopted marginal costs, that have been developed by the IOUs, endorsed by the Commission, and forms the basis for all existing tariffs requires no extra special scrutiny.

Edison again misinterprets the CPUC's intent in the initial order opening the rulemaking as stated here:

> *to provide a venue for investigating and designing mechanisms that can help customers finance all of the energy investments they might wish to make on their properties, without artificial barriers such as those caused by regulatory rules related to funding source*.[8]

In providing this guidance the Commission uses the word "mechanism*s*," plural, not "mechanism" singular, meaning a myriad of mechanisms may be used to finance different, or similar, energy investments. Under Edison's interpretation that a sole mechanism must be able to carry all possible clean energy investments the utility's own proposal would fail, since it provides little to no means to finance anything other than interventions that result in savings

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[7] Some Commission proceedings are more expensive and time consuming to participate in than others. It is quite likely that fewer non-utility parties engage in GRCs than other dockets, because of challenges associated with complexity, length, and the necessary resources to effectively participate.

[8] Order Opening Rulemaking, R.20-08-022, p. 27]

based on present rates and does not effectively address split incentive, existing cost shifts, or other financing challenges.

Most decarbonization investments face significant barriers, including the need to carry legacy utility costs and credit constraints under status quo rate and financial conditions. This is why Edison has proposed to directly pay for decarbonization through ratepayer dollars in another docket, an approach that would likely result in rate increases.[9]

The DIR would significantly diminish the need for other elaborate financing mechanisms. "Financing" isn't just about issuing credit between entities; it encompasses pricing, granting, taxing, billing mechanisms, and other methods. The DIR recognizes the Commission-codified forward cost of electrification, which is much less than the current average rate charged to existing uses.

The CPUC made a clarion call for financing ideas, big and small. LGSEC provided one. While perhaps imperfect, it merits serious Commission consideration in this docket.[10]

The PCIA Has Been Waived Previously and Is Unjustified for New Unanticipated Load

SCE raises several fallacious arguments related to removing the power cost indifference adjust (PCIA) from the DIR.[11] SCE asserts that it is unlawful for the Commission to waive the PCIA for "a portion of community choice aggregator (CCA) load", that parties in the PCIA proceeding have not had an opportunity to actively participate, and that there is no guarantee that the PCIA reduction would be passed on to CCA customers. Each of these is a false claim.

[9] APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR APPROVAL OF ITS BUILDING ELECTRIFICATION PROGRAMS, December 20, 2021.

[10] For additional support see "Letter from Local Governments in response to CPUC Proceeding R.20-08-022 Order Instituting Rulemaking to Investigate and Design Clean Energy Financing Options for Electricity and Natural Gas Customers," July 20, 2022.

[11] SCE Comments, p. 3.

Starting with the most obvious error, SCE somehow managed to overlook the phrase "for example" in LGSEC's off-handed statement "Community Choice Aggregators (CCA), *for example*, would not have to pass on PCIA charges to load that is DIR-eligible."[12] In fact, the LGSEC proposal encompasses waiving the PCIA for *all* customers—departed and bundled—who participate in this tariff. The example given was just a more salient case given the importance of the PCIA to CCAs. The statement was perhaps awkwardly phrased; CCAs do not actually pay and then collect the PCIA for their customers—the IOUs assign the PCIA by vintage of departure to individual ratepayers, including bundled customers, and reflect those charges in monthly bills. SCE's objection is baseless in this context. Instead, SCE appears to want to play a game of "gotcha" in a similar fashion as waiting until the last moment to raise objections about LGSEC's proposal being out of scope.

As for asking for an unprecedented waiver, the Commission most recently waived the PCIA for direct access customers who had departed before 2009 as part of a settlement among stakeholders. That settlement was largely constructed without CCA participation, who began intervention in Energy Resource Recovery Account (ERRA) proceedings in earnest only in 2017 after settlement terms had been set. The predecessor of the PCIA, the competition transition charge (CTC), was waived for direct access customers who were in continuous service from energy service providers during 2001, and for specifically identified forecasted municipal departing loads in the MDL tariff.[13] Repayment of the Department of Water Resources Bonds were also waived for these customers.

Application of the PCIA and CTC were eliminated for those customers based on the same rationale underlying why the PCIA should be waived in the DIR—the utilities could not and did

[12] LGSEC Proposal, p. 4.

[13] ADMINISTRATIVE LAW JUDGE'S RULING REGARDING MUNICIPAL DEPARTING LOAD BILLING AND COLLECTION IMPLEMENTATION, December 23, 2004.

not include those loads when forecasting for future resource acquisition. The vast majority of the excess stranded costs recovered in the PCIA were incurred in

1) utility-owned generation (UOG) placed in service prior to 2011,[14] and
2) renewal generation power purchase agreements (PPA) of which the most and highest cost were signed before 2016.[15]

The utilities could not have possibly forecasted the potential new building and transportation electrification loads and incorporated these into resource acquisition plans before 2016 for two reasons:

1) Prior to 2019, energy efficiency incentives for fuel substitution from natural gas to electricity was prohibited.[16] The electric utilities had no basis to forecast increased electrification load due to this prohibition. Rising electricity rates discouraged such fuel substitution until the CPUC began to proactively pursue electrification in 2019.[17]
2) In 2020, the Governor issued a directive that all new automobile sales be 100% electric vehicles (EV) by 2035, with intermediate targets.[18] While the California Air Resources Board (CARB) has included increased EV sales in its Assembly Bill 32 Scoping Plans, those goals are well below those established by the executive order.[19]

Absent the DIR to incentivize electrification, current customers assessed the PCIA would continue to pay the same rate forecasted by the utilities—this is the "but for" test as to whether

[14] CPUC, 2020 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature, April 2021, Figure 3.3.

[15] CPUC, 2021 Padilla Report: Costs and Cost Savings for the RPS Program (Public Utilities Code §913.3, May 2021, Figures 1, 2 and 3.

[16] CPUC Decision 19-08-009.

[17] The CPUC opened the Building Decarbonization Rulemaking in 2019 (R.19-01-011).

[18] Governor Gavin Newsom, "Executive Order N-79-20," https://www.gov.ca.gov/wp-content/uploads/2020/09/9.23.20-EO-N-79-20-Climate.pdf, September 23, 2020.

[19] The Scoping Plan calls for 4.2 million EVs by 2030. And even so, this plan was released *after* the bulk of the utilities' generation resource acquisitions. (CARB, *California's 2017 Climate Change Scoping Plan*, https://ww2.arb.ca.gov/sites/default/files/classic/cc/scopingplan/scoping_plan_2017.pdf, November 2017, p. 79.)

the electrification loads are truly new and unanticipated at the critical date. Additional load from electrification would dilute the PCIA in an unanticipated fashion, be a bonus for existing customers, and diminish the effectiveness of reducing greenhouse gas emissions because existing users would be free rider beneficiaries. Customers who did not participate in electrification efforts would receive windfall benefits while doing nothing to help achieve the state's goals to fight climate change. To avoid cross-subsidies, if the electrification loads are to pay the PCIA, it must be based on a vintage that reflects only resource procurement since 2019.

The same principle holds for charging rates based on marginal costs that exclude other excess legacy expenses. Existing customers and loads would pay the same rates going forward without the electrification as sales have been flat since 2009.[20] For the same reason that the EDR provides a benefit to other customers by covering at least added costs of service, the DIR would bring more load into the system and ensure that incremental costs of service are covered. And that added load would still pay the non-bypassable charges (NBCs) that assist the state in achieving its equity and environmental goals.

No Cost-Shifting Would be Induced by the DIR

Contrary to SCE's assertion that application of the DIR would lead to cost shifting[21] the opposite is true, as stated by VEIC,

> *VEIC believes reforms are needed to address the extent to which electric rates shift costs from non-participating ratepayers to ratepayers pursuing electrification…The difference, $895 per year, reflects an electrification penalty for the participating customer, which*

[20] CPUC, AB 67 Report, 2020, p. 9.

[21] In response to Greenlining Institute and Green for All, SCE's TOU-D electrification rate is a time-of-use tariff that can make the economics of, and associated financing or, solar and storage more attractive, it is not tailored as a comprehensive clean energy financing or electrification mechanism, nor has it performed that way. The TOU-D rate still recovers substantial legacy costs that make new electrification investment less attractive and affordable than LGSEC's proposal, which focuses on recovering only the costs incurred to meet new loads in addition to those of legislative mandates.

accrues to the benefit of nonparticipating customers by reducing the utility's revenue requirement. Over the heat pump's 15-year useful life, the cost shift at those rates would add up to a nominal value of $13,432…We encourage the Commission to address that potential rate shift in this proceeding. A response that seeks to improve fairness will also unlock greater opportunity for inclusive capital investment in decarbonization. This could be achieved in several ways. One reasonable strategy is the pilot proposed by LGSEC to base an electrification rate on marginal costs for specific end uses that increase electrical load."[22]

As LSGEC stated in its initial proposal, current customers are not entitled to benefit from increased usage from other customers through reduced rates. New customers must pay the incremental costs of additional service. This is exactly the rationale used to justify establishment of the EDR rate to retain industrial customers who intend to exit the state. So long as a customer pays their direct added costs of service, there are no cost shifts from the perspective of economic efficiency. There is no economic principle that states otherwise. In fact, any cost shift will be going the other way—the customers who make investments in electric appliances, space conditioning, water heating and vehicles will be contributing to already-existing revenue requirement responsibilities of other customers through the NBCs, thus lowering the bills of those other customers while paying for their own investments.

To address equity issues, lower income customers should be provided with assistance, through Regional Energy Networks and other vehicles, to participate in the tariff. That said, variations in enrollment by different groups of customers would not be considered cost shifting by any definition. More likely, lower income customers, who tend to have higher price elastic demand, would find the lower DIR rate attractive for switching from expensive natural gas.

[22] VEIC Comments, pp. 8 and 9.

LGSEC's Proposed Budget and Schedule are Reasonable

Because LGSEC has no insight into SCE's internal capacity or processes, the DIR cost proposal and schedule may require further collaborative refinement. LGSEC attempted to engage SCE in such a planning process by sharing its proposal on March 21, 2022, prior to submittal, and made multiple requests to meet with SCE to discuss it. LGSEC did not receive any input or feedback from SCE at that time, nor did SCE protest the concept as being out of proceeding scope, leading us to assume that our cost and schedule assumptions were generally acceptable. LGSEC did not hear objections on this point from the other utilities either.

LGSEC's proposal is no more complex to implement than other customer-specific billing variations, such as climate-zone-based baseline allowances, medical baselines, and PCIA charges by vintage. LGSEC's approach uses simple equipment-based allowances that are no different than the tiered rate structure that already exists. The utilities previously had up to five tiers, and now have scaled back to three, and even two for San Diego Gas & Electric.

LGSEC welcomes the opportunity to work with SCE and adjust the schedule and costs as reasonably necessary to reflect their input.

LGSEC Welcomes the Opportunity to Work with Edison to Address Salient Issues

LGSEC and Santa Barbara Clean Energy (SBCE) welcome the opportunity to work with Edison to develop a pilot that fully addresses its and others' concerns, for example:

- Stipulate that the rate is only applied to net load increases prompted by implemented the decarbonization measures.
- Refine methods to measure increased load, including as identified by LGSEC in its proposal, which can also be comprehensively evaluated as part of the proposed pilot.

- Determine the term of the rate.

Local Government's Critical to Advancing Clean Energy Future

LGSEC strongly agrees with VEIC, and is especially supportive of its statements that,

> Local governments are uniquely positioned to combine their own legislative, budgetary, and land use powers with clean-energy financing to accelerate investment in decarbonization…Local governments lack the utility functions necessary to offer IUI on their own. The Commission can ensure local governments (CCAs most immediately) can access and participate in IUI by ensuring that IOUs adopt necessary tariffs and platforms and provide the necessary data to plan, design, and implement inclusive financing offerings.[23]

Like most parties, LGSEC's ability to engage in proceedings is limited by its regulatory budget, which is well less than six figures a year to sponsor engagement. The Coalition is not eligible for intervenor compensation. Yet we developed an innovative proposal that squarely addresses the Commission's call for new financing mechanisms, as well as sheds light on the need to eliminate existing cost shifts that work against decarbonization. We hope the CPUC will give the DIR the serious consideration it deserves, and adopt at minimum LGSEC's proposed pilot.

Signed July 22, 2022

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