



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

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Order Instituting Rulemaking to
Advance Demand Flexibility
Through Electric Rates.

R.22-07-005

OPENING COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY
(U 338-E) ON ORDER INSTITUTING RULEMAKING TO ADVANCE DEMAND
FLEXIBILITY THROUGH ELECTRIC RATES

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I.

INTRODUCTION

Pursuant to Rule 6.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), Southern California Edison Company (SCE) submits these Opening Comments on the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (Order Instituting Rulemaking (OIR)), issued July 22, 2022.

SCE appreciates the opportunity to provide input and lauds the Commission's leadership in advancing demand flexibility to support the transition of California's electric system to 100 percent renewable and clean energy power. The OIR builds on Energy Division's Demand Flexibility Whitepaper,¹ which proposes six strategies to advance demand flexibility through a common, accessible, dynamic tariff design based on the CalFUSE framework. While SCE generally supports the continued exploration of the CalFUSE structure to enhance customer demand flexibility, SCE discusses below several complex issues and policy activities involved in

¹ Whitepaper *available at* <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/demand-response-dr/demand-response-workshops/advanced-der-and-demand-flexibility-management-workshop>.

this OIR that will need thoughtful timing and planning for successful implementation. SCE recommends the Commission take a thorough, measured approach by establishing three tracks to address issues.

II.

DISCUSSION

In accordance with Rule 6.2, SCE structures these comments to address: A. Categorization and Need for Hearings; B. Issues to be Considered; C. Working Groups; and D. Schedule.

A. Categorization and Need for Hearings

SCE agrees with the Commission's preliminary determination that this proceeding falls within the ratesetting category and that hearings are necessary.

B. Issues to be Considered

1. SCE Comments on Preliminarily Scoped Issues

The OIR identifies 13 sets of questions that identify the issues that are preliminarily scoped within this proceeding.² SCE agrees that consideration of these issues is appropriate for this OIR. However, these issues touch upon other policy activities in the State, including the pending demand response applications (A.22-05-002, *et al.*), the California Energy Commission's (CEC) Load Management Standards, the High Distributed Energy Resources (DER) Future rulemaking (R.21-06-017), and SCE's dynamic rate pilot.³ These activities are complex, involve different and/or competing timelines, and involve many stakeholders from different industries. Based on SCE's experience in these forums, SCE provides the following

² See OIR, Ordering Paragraph (OP) 4; *id.*, pp. 8-9.

³ SCE's Dynamic Rate Pilot was approved in D.21-12-015 (see pp. 96-99; OPs 60-63).

comments on the preliminary issues, and considerations that are important to the development of a successful set of policies and programs to advance demand flexibility through electric rates.

a) **Income-based Fixed Charges Should be Addressed Early in the Proceeding**

Assembly Bill (AB) 205, enacted in 2022, directs the Commission to authorize income-graduated fixed charges for residential rates no later than July 1, 2024. To the extent residential fixed charges pursuant to AB 205 are considered in this proceeding, such issues should be addressed at the beginning of this proceeding, in order to provide adequate time for investor-owned utilities (IOUs) to develop and file the necessary rate case applications. SCE recommends the Commission take an approach in which comment periods and workshops that will inform an income-based fixed charge are completed by Q2 of 2023. The result of this initial phase will be the establishment of the basic framework and attributes of income-based fixed charges the utilities will then use to file individual applications proposing rate designs and including funding requests. The Commission successfully used this approach in the Time-of-Use (TOU) rulemaking (R.12-06-013) when establishing the basic ingredients (i.e., attributes) that then informed each respective IOU's TOU periods definitions.

b) **Allow Time for Current Dynamic Rate Pilots to Inform the OIR**

SCE is currently conducting a transactive dynamic real time pricing pilot authorized in D.21-12-015 in the CPUC's Summer Reliability proceeding to assess the costs and benefits of using real time price signals to encourage participating customers to automatically adjust their electrical end use demands to hourly pricing based on wholesale market and grid conditions. This pilot is testing several elements of the CalFUSE framework with a mid-term report due December 31, 2023, and a final report due no later than March 1, 2025. Through this pilot, SCE expects to learn about the efficacy of dynamic pricing designs and the various approaches for developing a forward subscription model to mitigate customer price volatility, as well as about

the operational effectiveness of automated vendor software platforms that enable enhanced customer price elasticity. Other lessons learned will relate to customer perception of the program, communication needs for effective enrollment, and critical utility infrastructure needs and requirements pertaining to secure data transfers, shadow billing, and customer-specific circuit level load forecasting. The pilot will help SCE to begin to evaluate whether dynamic prices are cost effective and can provide long-term benefits to the grid and customers, including improving customer affordability. Thus, it is imperative that SCE's pilot and other related pilots that are run in parallel or subsequent to this one are given adequate time to produce meaningful data and learnings in order to inform this proceeding.

Additionally, while the current SCE pilot intends to demonstrate some aspects of the CalFUSE framework, it is a valuable ongoing process of discovery and research intended to inform future, more scalable pilots, and not to define the validity or the overall cost effectiveness of the CalFUSE framework. That will require more effort and subsequent research, development, and investment as new technologies are included during this initial phase of the work. SCE intends to leverage innovation learnings not only from this demonstration, but from collaboration with the CalFlexHub project that will identify and demonstrate building load-flexible technologies consistent with building energy efficiency, appliance, and load management standards that are in development at the CEC.

c) **Consider a Phased Implementation Approach Based on Grid Impacts and Cost-Effectiveness**

Should the Commission ultimately determine that it is appropriate to implement dynamic rates as contemplated in this OIR, SCE recommends a phased approach and rollout of a new dynamic rate design based on a thorough understanding of the results of the pilots and research studies currently underway. This will ensure the knowledge from these demonstrations, and parallel research, can inform a targeted and cost-effective rollout to those customer segments most likely to benefit from demand flexible rate options. For cost-effective implementation of

future dynamic rates, SCE recommends the Commission and stakeholders first learn which program features are best suited for the customer groups/segments, which are most likely to provide grid benefits, and what infrastructure/price machine functionality is needed to ensure a cost-effective program. An evaluation of customer impacts is also necessary to ensure healthy participation and that benefits accrue on both sides of the meter. This will likely maximize flexible load impacts for a given amount of participating load and result in sufficient customer participation in order to then determine how the program should grow. The Commission took a similar phased approach in rolling out mandatory/default TOU rates. In this example, the Commission initiated the transition with customer segments that were most likely to benefit from the transition, deliver the desired outcome, and be attuned with the behavioral changes underlying the transition. SCE requests that the scope and schedule of this OIR follow the example set by the TOU rates rollout.

d) Implementation Cost Recovery

In addition to the preliminary issues in the OIR, the Commission should include in scope of the OIR a discussion of how costs associated with full implementation of dynamic prices should be recovered. To ensure the successful launch of dynamic flexible rates, significant system infrastructure will be needed to retrieve and calculate dynamic prices and subsequently provide that dynamic price information to customers devices and service providers. There will also need to be significant upgrades to the billing system to calculate the rates, as well as updates to the actual bill. Identifying funding sources in advance will be critical in effective implementation.

e) Robust Customer Education and Outreach on Dynamic Pricing Will be Critical for Adoption

Given that residential customers have only recently migrated to TOU rates, SCE anticipates extensive marketing, education, and outreach activities would be needed for the

launch of a new, more granular, pricing framework such as CalFUSE. To enable mass customer adoption and significant grid benefits, any potential shift to dynamic pricing will likely be an undertaking that will require customer marketing and education similar in magnitude to TOU rates because this is a new and complex rate option from which customers and the grid can benefit if customers are well-informed and take appropriate actions. As such, the Commission should use learnings from marketing and education done for the residential TOU implementation (R.12-06-013) to inform the marketing and education effort for dynamic pricing.

Prior to a customer's choice to enroll in a dynamic rate, they should have access to information regarding how the rates work, the options available, and the types of customers most likely to benefit from these types of rates for overall personal and grid benefit. Results from pilots should be used to develop sets of best practices that customers can use to maximize their benefits under the new rates. In order to maximize automation, information should be provided to customers regarding the types of equipment available and links to retailers and installers, perhaps incorporating successful models used in other statewide programs including current Demand Response and Energy Efficiency programs. Customers should also be informed regarding their performance on the program so they can understand the impact their actions are having on their bills and the environment. Customers must understand how their electric bill might change and the potential risks and benefits of dynamic price signals. If the Commission determines that widespread rollout of dynamic rates is appropriate, it should provide adequate time and funding for robust customer education and outreach.

f) Coordination with the Related Policy Activities

The CEC's draft Load Management Standards propose to establish a time-dependent and accessible database of electric prices that is similar to what is envisioned in one of the strategies in Energy Division's Demand Flexibility Whitepaper to be considered in this OIR. While SCE generally supports the CEC's efforts to offer marginal cost-based rates for customers, the implementation timeline in the current draft load management plan is an area of great concern

for SCE. In addition, the complexity of the proposed Standards may require a level of coordination among stakeholders that goes beyond the bounds of any other proceeding, including different authorities (CPUC, CEC, Federal Energy Regulatory Commission, and Community Choice Aggregator governing bodies), device manufacturers, and platform providers. With respect to OIR issue H, SCE urges the Commission to consider the implications of the CEC's implementation timeline for Load Management Standards in its consideration of implementation of the dynamic price structure. This OIR should also closely coordinate with the High DER proceeding to ensure that additional demand flexibility solutions do not create additional service reliability conflicts between the electric distribution and transmission systems for instances where wholesale market needs are not aligned with the local area distribution reliability needs.

g) The OIR Should Result in the IOUs Being Directed to File Rate Applications

As a general organizational framework, SCE recommends the Commission follow the model established in the TOU OIR (R.12-06-013). The basic elements included: 1) a period of workshops and comments where parties engaged in the details of TOU period drivers; 2) a Final Decision in the OIR listing the specific studies, drivers, and attributes that were needed to inform the designation of IOU-specific TOU periods; and 3) IOU specific rate design applications proposing new TOU periods and presenting supporting arguments and studies based on each IOUs' unique cost and customer drivers. A key benefit of this approach was the establishment of a common set of principles and attributes applicable across the IOUs, while the TOU periods were based on the collection of inputs and issues unique to each utility. As there are two primary rate design issues to be addressed in this OIR, SCE recommends that this OIR result in at least two Final Decisions: 1) a decision defining the framework and attributes for residential income-based fixed charges, including rate design principles; and 2) a decision with directives for the remaining dynamic pricing and demand charge issues. In each of these two decisions, the

Commission should direct the IOUs to submit specific rate design applications proposing new rate designs and, as necessary, funding requests.

C. Working Groups

The OIR states in relevant part that “[t]he scoping ruling will . . . establish two or more working groups to develop proposals for the proceeding.”⁴ Based on the experience with Commission working groups to develop TOU rates, SCE supports the use of such working groups in this OIR. Working groups can facilitate input from a broad array of stakeholders in a collaborative environment. This accelerates the identification of solutions that consider multiple points of view and speeds decision making.

D. Schedule

The OIR sets the following preliminary schedule:

EVENT	DATE
Opening Comments filed and served	Within 30 days of the effective date of this OIR
Reply Comments filed and served	Within 10 days of the date opening comments are due
Prehearing conference held	Quarter 3 of 2022
Scoping Memo and Ruling issued	Quarter 3 of 2022
Proposed Decision issued	No later than 90 days after submission of the record
Commission Decision issued	No sooner than 30 days after Proposed Decision

Based on the discussion above, SCE recommends the Commission take a thorough, measured approach to support the success of both reformed fixed charges and dynamic flexible pricing structures. There are preliminary issues in the OIR that involve elements that are dependent on, or would greatly benefit from being informed by, first resolving elements in other issues. For instance, issues surrounding dynamic price structure should be addressed after issues around rate design principles and fixed charges have been resolved. Another example is issues around ensuring universal access to dynamic electricity prices, should be addressed after there

⁴ See OIR at p. 7.

are meaningful data and lessons learned from the current dynamic rate pilots. As such, the schedule for this proceeding should be developed around three tracks, with Tracks 1 and 2 running concurrently and starting no later than Quarter 4 of 2024, that consider specific issues as follows:

a.) **Track 1 – Rate Design Principles and Objectives**

Track 1 should address rate design principles and establish objectives. This will guide the activity in the other two tracks and give parties a common framework through which to address both fixed charge reform and dynamic rate structures. This track should address OIR Issues A, B, and K. This track should also consider an initial assessment of the implementation cost recovery approach, as described in in B.1.(d) above.

b.) **Track 2 – Reform of Fixed Charges**

Track 2 should address reform of fixed charge design, in accordance with AB 205. Track 2 should be addressed on a schedule that accounts for the development of principles in Track 1 and allows the Commission to authorize a compliant fixed charge for residential rates by the July 1, 2024 deadline defined in AB 205.⁵

This track should address OIR Issues E, and I.

c.) **Track 3 – Dynamic Rate Structures**

Track 3 should address the design of dynamic rate structures. Track 3 should be addressed on a schedule that accounts for development of principles in Track 1, and allows adequate time for the existing dynamic rates pilots to run their course and yield data to inform next steps. The SCE pilot is scheduled to produce a final report by March 1, 2025. This track should address OIR Issues C, D, F, G, H, I, J, K, L, and M.

⁵ See Public Utilities Code Section 739.9, which codified AB 205.

III.

CONCLUSION

SCE appreciates the opportunity to comment on the OIR.

Respectfully submitted,

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