



PUBLIC UTILITIES COMMISSION

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SAN FRANCISCO, CA 94102-3298

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March 14, 2024

Agenda ID #22436
Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 22-11-013:

This is the proposed decision of Administrative Law Judge Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's April 18, 2024 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE

Michelle Cooke

Chief Administrative Law Judge

MLC:smt

Attachment

Decision PROPOSED DECISION OF ALJ LAU (Mailed 3/14/2024)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, Data Access and Use, and Equipment Performance Standards.

Rulemaking 22-11-013

**DECISION APPROVING FUNDING FOR TRANSMISSION
AND DISTRIBUTION AVOIDED COSTS STUDY**

Summary

This decision authorizes \$1.5 million in reimbursable ratepayer funds for an avoided transmission and distribution (T&D) costs study. The primary purpose of this study is to examine how distributed energy resources can help California defer or avoid building more T&D infrastructure and how to accurately estimate these avoided T&D costs. The study results are anticipated to be incorporated into the 2026 Avoided Cost Calculator Update cycle to improve estimating avoided T&D costs. Energy Division is authorized to hire a consultant to conduct the study.

This proceeding remains open.

1. Background

As a successor proceeding to Rulemaking (R.) 14-10-003, on November 23, 2022, the Commission issued the instant Order Instituting Rulemaking (OIR or R.22-11-013) to achieve consistency of cost effectiveness assessments, improve data access and use, and consider equipment performance standards for

distributed energy resource (DER) customer programs.¹ R.22-11-013 provides the procedural framework for advancing the vision articulated in the customer programs track of the Commission's DER Action Plan 2.0, which states:

The DER Action Plan's Customer Programs Track focuses on improving coordination, planning and developing consistent metrics across DER proceedings related to customer programs to maximize their contributions to [greenhouse gas (GHG)] reductions and other state energy goals. The goal is to enable all customers to effectively manage their energy usage in a manner that ensures equitable participation and distribution of benefits, alignment with evolving rate design and load flexibility, alignment with distribution planning objectives, and alignment with integrated resource planning objectives.²

On May 31, 2023, the assigned Commissioner's Scoping Memo and Ruling was issued, which bifurcated the proceeding into two phases. Phase One focuses on issues related to cost-effectiveness of customer DER programs, including updating the Avoided Cost Calculator, and policies on improving data usage and access to help customers make informed decisions about adoption, evaluation, and utilization of DERs. Phase Two focuses on developing equipment performance standards.

¹ DER customer programs are programs offered to ratepayers by utilities, or other load-serving entities, that enable participants to manage their energy use by purchasing energy efficient or electric generation technologies, making behavioral changes, or engaging in other activities that occur on the customer's premises (often called "behind-the-meter"). They are sometimes referred to as "demand-side management" programs because they allow customers to manage their own demand for electricity or natural gas. They are also referred to as "distributed energy resource" programs since the technologies used may be small, modular devices that can be distributed throughout the electric grid or natural gas system, rather than centrally-stationed like most utility-scale generation (e.g., power plants). This proceeding will use the terms DER or customer programs to refer only to behind-the-meter activities. The term "distributed energy resources" as used elsewhere often includes small, distributed utility-scale generation.

² Available at: <https://www.cpuc.ca.gov/about-cpuc/divisions/energy-division/der-action-plan>.

Phase One has two tracks. Track One examines how to make cost-effectiveness assessments more accurate and consistent across DER programs. Track Two examines the rules and requirements to improve data access to facilitate adoption, evaluation, and utilization of DERs by customers and other entities and to improve DER integration with the grid.

As part of assessing the cost effectiveness of DERs, the Commission, in R.14-10-003, the predecessor to this proceeding, examined how to measure the transmission and distribution (T&D) costs that can be avoided with the utilization of DERs. In R.14-10-003, the Commission issued Decision (D.) 22-05-002, which determined that the method used at the time for estimating avoided T&D costs needs improvement and that a study on avoided T&D costs is needed to estimate these costs more accurately.

Here, in Track One of Phase One of this proceeding, we follow the finding in D.22-05-002, to consider whether Commission staff should be authorized with funding to hire a consultant to conduct a study to analyze avoided T&D costs. As part of the study, Commission staff would also consider whether to include research to support a permanent gas greenhouse gas (GHG) adder. The permanent gas GHG adder will be used in the Avoided Cost Calculator (ACC) to estimate the value of gas sector GHG emissions that can be avoided by the utilization of DERs.³

On December 8, 2023, the assigned Administrative Law Judge (ALJ) issued a ruling seeking party comments on whether the Commission should authorize \$1.5 million in ratepayer funding for the avoided T&D costs study (Study). This

³ Currently, the ACC uses an interim gas GHG adder, which is set based on the cost of building electrification.

ruling informed the parties that the Commission intends on contracting with a consultant to conduct the Study and outlines a preliminary scope of work for the Study. The ruling also noted that, based on the complexity of the scope of work, an estimated \$1.5 million in ratepayer funding would be needed for the Study.

Opening comments were timely filed by Southern California Gas Company (SoCalGas), Public Advocates Office (Cal Advocates), Solar Energy Industries Association (SEIA), Local Government Sustainable Energy Coalition (LGSEC), the Protect Our Communities Foundation (PCF), Center for Biological Diversity (Center), OhmConnect, Inc. (OhmConnect), and Southern California Edison Company (SCE). Reply comments were timely filed by Pacific Gas and Electric Company (PG&E), SoCalGas, Center, PCF, and Weave Grid, Inc. (Weave Grid).

2. Issues Before the Commission

This decision addresses issues related to cost-effectiveness assessments of DER programs, which are being considered in Track One of Phase One, and considers whether to authorize \$1.5 million of ratepayer funds to hire a consultant to conduct the Study.

3. Party Positions

The parties largely support authorizing the \$1.5 million in ratepayer funds for the Study, as summarized below.

3.1. Southern California Edison Company (SCE)

SCE generally agrees that an avoided T&D study is needed and that \$1.5 million in funding for the Study may be necessary, but requests that there be an opportunity for stakeholders to comment on the scope of the study before it begins.

3.2. The Protect Our Communities Foundation (PCF) and Center for Biological Diversity (Center)

PCF and Center filed comments jointly. PCF and Center support the Study and the funding needed for the Study. PCF and Center argue that the Study results should be included in the 2024 ACC update.

PCF and Center also propose forming a Technical Advisory Group to provide input and recommendations for the Study. They suggest that the Technical Advisory Group include a majority of non-utility stakeholders and be overseen by Energy Division staff, and that the Technical Advisory Group be funded by the funding authorized in this decision.

Finally, PCF and Center suggest the Study include a broad range of avoided costs, including avoided land use, environmental and habitat biodiversity damages, and avoided operation and maintenance costs such as avoided costs of wildfire mitigation. PCF and Center also suggest that the study on the permanent gas GHG adder include an assessment of local pollution and co-pollutants, including the release of particulate matter, that is avoided along with GHGs.

3.3. Southern California Gas Company (SoCalGas)

SoCalGas generally supports the avoided T&D costs study but expresses concern that \$1.5 million in funding may be insufficient to cover the costs of the Study and the development of a permanent gas GHG adder. SoCalGas speculates that developing a permanent gas GHG adder is complex and requires significant time, resources, and technical expertise and suggests that proper funding be given so that the development of a permanent gas GHG adder will not be constrained.

SoCalGas opposes the recommendations of Center and PCF to include non-GHG costs such as avoided local pollution in the study of a permanent gas GHG adder and asserts that including non-GHG costs will make the adder inappropriate for use as one of the Commission's primary cost effectiveness tests.

3.4. Public Advocates Office (Cal Advocates)

Cal Advocates requests more clarification on the scope of work for the permanent gas GHG adder, and that stakeholders should be afforded opportunity to comment on the scope of the permanent gas GHG adder before it is finalized. Cal Advocates also suggests that the Study consider incorporating recommendations parties presented in their testimony on the current 2024 ACC update regarding the natural gas GHG adder. Lastly, Cal Advocates requests that parties be afforded an opportunity to provide feedback, such as in a workshop or through filing comments, on the Study's proposed valuation methods before being finalized.

3.5. Solar Energy Industries Association (SEIA)

SEIA supports the Study and the proposed \$1.5 million funding for the Study and provides several suggestions to the proposed scope of work. SEIA recommends removing the plan for a counterfactual load forecast, such as the "No New DER scenario," because the current 2024 ACC Update Staff Proposal removed this scenario and this omission received party support. SEIA also suggests that the scope of the Study be sufficiently broad to encompass the deficiencies parties raised in testimony on the current 2024 ACC update regarding the current calculation of avoided T&D costs.

3.6. Local Government Sustainable Energy Coalition (LGSEC)

LGSEC recommends that funding not be authorized unless money, or at least \$50,000, is set aside from the authorized funding to support a Technical

Advisory Group and that the Study include proper methodologies and frameworks to examine avoided T&D costs that reflect the feedback from the Technical Advisory Group. The Technical Advisory Group, as recommended by the LGSEC, should consist of at least five members, of which three should be nominated by non-utility parties and the other two members nominated by the utilities.

3.7. OhmConnect, Inc. (OhmConnect)

OhmConnect supports the Study as well as the development of a permanent gas GHG adder.

3.8. Pacific Gas and Electric Company (PG&E)

PG&E agrees with SCE and SEIA that the Commission should consider input from stakeholders on the scope of the Study before proceeding with the Study. PG&E also agrees with SEIA that the Commission should remove the plan to use a counterfactual load forecast, such as the “No New DER scenario.”

3.9. WeaveGrid

WeaveGrid supports authorizing ratepayer funding for the Study.

4. Study Authorization

We authorize \$1.5 million in reimbursable ratepayer funds for Energy Division to hire a consultant to conduct the Study. Given the complexity of the Study as detailed in the scope below, \$1.5 million in funding is reasonable and appropriate.

Similar to funding authorized for the ACC updates, the expenses Energy Division incur will be paid by the major investor-owned utilities, specifically PG&E, SCE, San Diego Gas & Electric Company (SDG&E), and SoCalGas (together, the Utilities), in proportion to the current allocation as determined in

R.13-11-005 or its successor proceeding.⁴ The Utilities will record the incurred expenses in their respective ACC Update Memorandum Accounts (ACC Update Memo Accounts) and seek reimbursements of these costs in their respective general rate cases. Only the actual expenses will be recorded in and recovered through the ACC Update Memo Accounts.

If the Study needs additional funding in the future, unspent funds authorized for the ACC Update processes may be used to cover the costs of the Study. Conversely, if there are unspent funds left over after covering the costs of Study, these unspent funds may be used for any future projects or programs related to the ACC, including the development of a permanent gas GHG adder.

4.1. Purpose of the Study and Scope of Work

The primary purpose of the Study is to examine how to estimate avoided T&D costs more accurately. The results of the Study are anticipated to be incorporated into the ACC during the 2026 ACC Update cycle.

The objective of the Study is to help the Commission better understand the marginal costs of constructing and maintaining T&D infrastructure. To accomplish this objective, the Study will need to examine the factors that contribute to the needs of building more T&D infrastructure and how DERs can help California defer or avoid those needs. Modeling will be needed to calculate the best estimated avoided T&D costs using various input factors.

The Study will address the following:

- Assessment of the Commission's current method for valuing marginal transmission and distribution avoided costs.

⁴ ACC update costs recorded in the ACC memorandum accounts are reimbursed in the same manner, in which the allocation of costs between the Utilities use the same allocations determined in R.13-11-005.

- Assessment of the possible methods to estimate avoided T&D costs, which may include, but are not limited, to:
 - the costs of transmission projects that were planned but later canceled as the basis for avoided transmission costs; and
 - historical data and data from other jurisdictions to develop “what if” scenarios of possible configurations of California’s transmission infrastructure if electricity demand were different.
- Assessment of possible methods to estimate marginal transmission and distribution costs by climate zone or more granular geographic areas.⁵

Parties requested an opportunity for stakeholders to provide further input into a more detailed scope of work before the Commission proceeds with the Study. The December 8, 2023 ALJ Ruling identified the preliminary scope of work with the parties and provided parties with the opportunity to comment and provide feedback on the scope.

In comments, SEIA suggested removing from the Study the development of a plan based on a counterfactual load forecast, such as the “No New DER” scenario, because the current 2024 ACC Update Staff Proposal removed this scenario and parties generally supported this omission. PG&E agrees with SEIA. We also agree and have removed this research topic from the scope of work.

After considering party comments, the scope of work has been modified as appropriate. The scope of work described above is the scope of work we adopt, as modified, for the Study.

⁵ These methods should be able to attribute costs by climate zones, which are determined by the California Energy Commission.

4.2. Stakeholder Input

Parties request that the Study allow and incorporate feedback from stakeholders throughout various stages of the Study. PG&E and SCE request that parties be allowed to comment on the scope of the Study before the Study begins. Cal Advocates requests that parties be allowed to provide feedback on the Study's proposed valuation methods before the Study is finalized. PCF, Center, and LGSEC recommend a Technical Advisory Group to provide guidance and feedback to the consultant throughout the Study.

We agree that stakeholder input is important and integral to the development of the Study and Study results. There have been and will be opportunities for stakeholders to provide input throughout the process and development of the Study.

The Commission's Energy Division is currently at the beginning stages of planning for the Study and has drafted an initial scope of work for the Study. On December 8, 2023, the ALJ issued a ruling seeking comment on the issue of funding for the Study, including the preliminary scope of work for the Study. Party comments were since filed, and the final scope of work for the Study adopted in this decision incorporates those comments.

With this scope of work adopted in this decision, Energy Division will hire a consultant. The consultant shall work under the supervision and oversight of Energy Division in developing and conducting the Study, with regular check-ins throughout the entire process of the Study. Energy Division will work to ensure that stakeholders are involved and allowed opportunities to provide feedback and comments to the consultant throughout the process of developing the Study. The consultant shall conduct their research and analyses and make recommendations under the supervision and oversight of Energy Division.

After conducting the Study, the consultant shall prepare a Draft Report with preliminary findings and recommendations, including proposed valuation methods. The Draft Report will be served on the service list of this proceeding. Parties will be afforded an opportunity to comment on the Draft Report. If appropriate, Energy Division may conduct a public workshop on the findings and recommendations of the Draft Report.

After considering feedback through party comments and discussions at the workshop, should a workshop be held, the consultant shall prepare a Final Report, which will be submitted to the assigned ALJ, after which the assigned ALJ will issue a ruling receiving the Final Report and seeking party comments on the Final Report. Comments from the parties on the Final Report will be considered before the Commission determines whether and how to adopt the recommendations and findings in the Final Report in a Commission decision.

Stakeholder input will be allowed throughout the process of the Study. Given the extensive opportunities for party feedback at each stage of the Study process, a Technical Advisory Group is not needed. Furthermore, the Technical Advisory Group, as recommended by some of the parties, which would be formed by a select group of five or so parties that would include utility and non-utility participants, creates the risk that the parties selected in the group may have a greater influence on the process than those parties that are not selected, which inherently prejudices the non-selected parties. Parties have not demonstrated how further input from the Technical Advisory Group will be impartial or how it would provide more meaningful input than the opportunities for party engagement described above.

4.3. Incorporating Results of the Study into the 2026 ACC

In comments, PCF and Center argue that the results of the Study should be used in the current proceeding to update the most current 2024 ACC and are concerned that the results of the Study will not be reflected until the 2026 ACC update. The results of the Study will not be completed in time to be reflected in the current 2024 ACC update. The current 2024 ACC update is projected to be finalized by mid-2024 according to the proceeding schedule set forth in the Assigned Commissioner's Scoping Memo and Ruling, but the Study will still be in progress at that point. The results of the Study, however, should be completed in time to be incorporated into the 2026 ACC Update, which most likely will also be reviewed in this instant proceeding.

4.4. Studying the Permanent Gas GHG Adder

In addition to the avoided T&D costs study, the December 8, 2023 ALJ Ruling also provided a few details on the scope of work for the study of the permanent gas GHG adder. Parties have requested that more details for the scope of work pertaining to the permanent gas GHG adder study be provided. Some parties also commented on whether the study should include non-GHG values such as costs of avoided local pollution.

At this time, there are not any more details on the scope of work for the permanent gas GHG adder. When the details for the scope of work become available, parties will be offered an opportunity to comment. A future ruling will provide additional information as to the initial scope of work and estimated cost for the permanent gas GHG adder study and will allow parties to provide comments before the scope and costs are finalized.

If there are any authorized unspent funds after the avoided T&D costs study is completed, these funds may be used for the study of the permanent gas GHG adder.

5. Comments on Proposed Decision

The proposed decision of ALJ Elaine Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

6. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Elaine Lau is the assigned ALJ in this proceeding.

Findings of Fact

1. The primary purpose of the Study is to examine how to estimate avoided T&D costs more accurately.
2. The results of the Study will be used to update the ACC during the 2026 ACC Update cycle so that future iterations of the ACC can estimate avoided T&D costs more accurately.
3. Based on the complexity of the scope of work for the Study, an estimated \$1.5 million in ratepayer funding is justified to fund the Study.
4. Stakeholder input to the Study is integral to the development of the Study and Study results.
5. Stakeholders will be afforded an opportunity throughout the Study process to provide feedback and input.

6. The consultant will work under the guidance and oversight of Energy Division, and the Energy Division will ensure that stakeholder feedback is considered throughout the development of the Study.

7. The final scope of work for the Study was drafted after considering party comments.

8. The consultant will work under the guidance and oversight of Energy Division.

9. A Technical Advisory Group is unnecessary.

10. A Technical Advisory Group, as recommended by some of the parties to be formed by a select group of five or so parties, allows parties selected in the group to have a greater influence on the process than those parties that are not selected, which inherently prejudices the non-selected parties.

11. A Technical Advisory Group may allow undue influences from a select few parties to unfairly affect the outcome of the avoided transmission and distribution cost study.

Conclusions of Law

1. It is reasonable for the Commission to authorize \$1.5 million in reimbursable ratepayer funds to authorize Energy Division to hire a consultant to conduct the Study.

2. The scope of work for the avoided transmission and distribution costs study, as described in this decision, is reasonable and should be adopted.

3. This proceeding should remain open.

O R D E R

IT IS ORDERED that:

1. The scope of work for the avoided transmission and distribution costs study, as described in this decision, is adopted.

2. \$1.5 million in reimbursable ratepayer funds is authorized for the Commission's Energy Division to hire a consultant to conduct the study on avoided transmission and distribution costs (Study), as ordered in this decision. The expenses Energy Division incurs, up to a maximum of \$1.5 million, shall be paid by Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company, in proportion to the current allocation as determined in the energy efficiency proceeding – Rulemaking 13-11-005 (or its successor proceeding) and recorded in their respective Avoided Cost Calculator Update Memorandum Accounts. Any unspent funds left over after covering the costs of the Study shall be accumulated and carried over for use for future projects or programs related to the Avoided Cost Calculator.

3. The Commission's Energy Division will oversee the consultant to conduct the study on avoided transmission and distribution costs (Study), as ordered in this decision, and will ensure stakeholder input and feedback are solicited and incorporated throughout the Study process, including in the following milestones:

- (a) Scope of Work of the Study
- (b) Research/Work Plan for the Study
- (c) Draft Report with preliminary findings and recommendations of the Study
- (d) Final Report with findings and recommendation of the Study

4. Within 60 days of the issuance of this decision, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company shall each file an advice

letter to modify the preliminary statement of their respective Avoided Cost Calculator Update Memorandum Accounts to reflect the authorizations in this decision.

5. Rulemaking 22-11-013 shall remain open.

This order is effective today.

Dated _____, at Sacramento, California