Decision 23-11-087 November 30, 2023

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 AUTHORIZING AN ADDITIONAL $250,000 FOR THE 2024 AVOIDED COST CALCULATOR UPDATE AND FUTURE AVOIDED COST CALCULATOR UPDATES

Summary

This decision authorizes an additional $250,000 in reimbursable funds for the 2024 Avoided Cost Calculator (ACC) update and thereafter an annual $350,000 in reimbursable funds for subsequent ACC updates. Even with the increase in authorized annual funding, only the actual expenses will be recorded and passed on to ratepayers. Any unspent funds will be recorded and used for future ACC updates. The ACC funds will be recorded in the utilities' respective memorandum accounts that have been established for the ACC costs.

1. Background

Decision (D.) 16-06-007, issued in Rulemaking (R.) 14-10-003, Order Instituting Rulemaking (OIR) on Integrated Distributed Energy Resources (IDER), authorized the Executive Director of the California Public Utilities Commission (Commission) to hire and manage one or more contractors to provide the Commission with technical assistance in performing an annual Avoided Cost Calculator (ACC) update and provided funding for the ACC update process.[1] The Executive Director may expend up to the maximum funding allowed and is reimbursed by the utilities for the costs incurred. The utilities are to then record these costs in a memorandum account (ACC Memo Account) and seek recovery of these costs in their respective general rate case (GRC) proceedings by demonstrating that the costs are reasonable and incremental.[2]

In December 2018, the Commission issued a Request for Proposal (RFP) and engaged in a competitive solicitation process to hire a consultant to update the ACC in the IDER OIR proceeding, R.14-10-003.[3] As a result of the RFP, the Commission selected Energy and Environmental Economics (E3) as the lead consultant to assist the Commission in updating the ACC. On April 23, 2019, the Commission executed a contract with E3 for a period of three years, from May 13, 2019 to May 13, 2022, with an option to extend the contract for a one-year period twice.[4] On October 11, 2022, the Commission and E3 extended the contract to May 13, 2024. With this contract and the recent extension, the

[1] This funding includes an ongoing annual fund of $100,000 in reimbursable expenses beginning in the 2019-2020 Fiscal Year. Unspent money was allowed to be carried over to subsequent fiscal years.

[2] Pacific Gas and Electric Company (PG&E) records these costs in the Avoided Costs Calculator Update Memorandum Account. Southern California Edison Company (SCE) records these costs in the Avoided Cost Calculator Memorandum Account. San Diego Gas & Electric Company (SDG&E) records these costs in the Avoided Cost Calculator Update Memorandum Account. Southern California Gas Company (SoCalGas) records these costs in the Avoided Cost Calculator Update Memorandum Account.

[3] RFP 18PS500. Cal eProcure is a public website and any interested parties can view the RFP by accessing this link: https://caleprocure.ca.gov/event/8660/0000011420.

[4] The contract between the Commission and E3 is a public document and is available to the public through an inquiry under the Public Records Act.

Commission retains E3 as the consultant to update the 2024 ACC in this instant proceeding.[5]

On July 10, 2023, the assigned Administrative Law Judge (ALJ) issued a Ruling which allowed parties to comment on whether the Commission should authorize an additional $250,000 in reimbursable ratepayer funds for the 2024 ACC update process.[6] As stated in the ALJ Ruling, an estimated $540,000 is needed for the 2024 ACC update process, which is consistent with past expenditures. The 2022 ACC update process, which also used E3 as the lead consultant, cost $519,357. Even given the funds carried over from previous ACC update cycles and other proceedings,[7] the current funds are not sufficient to pay for expenses needed for the 2024 ACC update process. Current funds will run out by the end of 2023.

On July 17, 2023, SCE, Center for Biological Diversity (Center), and the Protect Our Communities Foundation (PCF), SDG&E, and SoCalGas filed comments in response to the July 10, 2023 ALJ Ruling on whether additional funding should be authorized.

2. Issues in this Decision

This decision is considering the issues below:

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[5] Other than the extended period of the contract, the terms of the agreement between the Commission and E3 remain the same.

[6] Administrative Law Judge's Ruling Requesting Party Comments on Additional Reimbursable Funds for the 2024 Avoided Cost Calculator Update Process.

[7] Carry-over funds consist of (1) $95,000 in funding carried over within the existing contract (Agreement Number 18PS5003), (2) $190,000 allocated from the Integrated Resources Planning proceeding (R.16-02-007) to support discrete tasks in support of that proceeding's overlapping goals within the ACC process (Agreement Number 18NC1043), and (3) $180,000 allocated from the Net Energy Metering Revisit proceeding (R.20-08-020) in support of development of the ACC to support that proceeding's overlapping goals within the ACC process.

1. Whether to authorize an additional $250,000 in reimbursable ratepayer funds for the 2024 ACC update process; and
2. Whether to retain memorandum account treatment or authorize balancing account treatment for the costs authorized to support the ACC.

3. Party Positions

Three parties timely filed comments in response to the July 10, 2023 ALJ Ruling.

The Center and PCF filed comments together. In comments, the Center and PCF expressed concern and reservations about the Commission's decision to retain E3 as the contractor and stated they have not been able to review the contract. Because they have reservations about E3 being hired as the consultant, they oppose authorizing any additional funds for the ACC update work until parties have an opportunity to review the Commission's contract with E3.

SCE supports the additional $250,000 in funding for the 2024 ACC update. Emphasizing the increasing role and importance of the ACC in policy development, particularly since the ACC is directly linked to the compensation for some Distributed Energy Resources (DER), SCE supports the additional funding to ensure that work for the ACC update has sufficient resources. In addition, SCE requests that the Commission authorize the utilities to record these costs in a balancing account rather than the memorandum account these costs are currently recorded in.

SDG&E and SoCalGas (jointly, Sempra Utilities) filed comments together. Sempra Utilities support increasing funding for the 2024 ACC update process, if more information about the scope of work for the 2024 ACC update demonstrates that the additional costs are appropriate and necessary. Sempra

Utilities also request balancing account treatment for the funds supporting the ACC update processes.

4. Authorizing More Funding

In this decision, we authorize an additional $250,000 in reimbursable funds for the 2024 ACC update. With the previously authorized $100,000, a maximum of $350,000 is authorized for the 2024 ACC update. We also increase the annual reimbursable funds for subsequent ACC updates from $100,000 to $350,000. Even with the increase in authorized annual funding, only the actual expenses will be recorded and withdrawn from the ACC Memo Accounts. Any unspent funds will be recorded and used for future ACC updates.

Below, we explain how the scope of work for the 2024 ACC update necessitates an additional $250,000 in funding and how increasing the annual reimbursable fund from $100,000 to $350,000 for subsequent ACC updates is reasonable.

4.1. Scope of Work for the 2024 Avoided Cost Calculator Updates Warrants Additional $250,000 in Funding

The amount of work anticipated for the 2024 ACC update process warrants the authorization of $250,000 in additional funding, in addition to the $100,000 in annual funding authorized in D.16-06-007. As detailed in the 2024 ACC Staff Proposal, the 2024 ACC update is anticipated to include changing the baseline from the "no new DER" scenario to the Integrated Resource Plan's (IRP) preferred system plan; establishing a methodology that calculates generation capacity and greenhouse gas avoided costs; modifying the generation capacity value to more accurately capture the reliability of battery storage resources; and calibrating and benchmarking Strategic Energy & Risk Valuation Model

(SERVM) prices.[8] The expected amount of work to conduct the 2024 ACC update process, as extrapolated from the recent Staff Proposal, is comparable to the amount of work required for the 2022 ACC update process. Both the 2022 and 2024 ACC updates require significant methodological changes. The 2022 ACC update process included setting a calculation method for greenhouse gases, resource adequacy, generation capacity and the impact of the Renewables Portfolio Standard; allocating the generation capacity value; establishing non-hourly avoided costs, distribution avoided costs, and natural gas avoided costs; and coordinating between the ACC and the IRP proceeding.[9]

Given the comparable amount of work needed to conduct the 2022 ACC update and 2024 ACC update process, it is reasonable for the 2024 ACC update to cost as much as the 2022 ACC update process. The 2022 ACC update process, which used E3 as the lead consultant, cost $519,357. The 2024 ACC update process, which will retain E3 as the lead consultant to conduct the ACC update process, is estimated to cost $540,000, consistent with the costs of the 2022 ACC update process.

The Center and PCF oppose hiring E3 as the consultant and request that the Commission not authorize any additional funds for the ACC update work until the parties have a chance to review the Commission's contract with E3. The contract between E3 and the Commission, which was executed prior to this proceeding, is not within the scope of this proceeding and is not subject to review or dispute in this proceeding. The Commission is not reviewing the

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[8] Administrative Law Judge's Ruling Issuing the 2024 Avoided Cost Calculator Staff Proposal for Party Input, Attachment A (Integrated Distributed Energy Resources 2024 Avoided Cost Calculator Staff Proposal), available at: https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M516/K712/516712053.PDF.

[9] D.22-05-002 at 8.

reasonableness of the contract between E3 and the Commission and does not need to take party comments before authorizing additional ACC funding in this proceeding.

However, the current funds are not sufficient to pay for expenses needed for the 2024 ACC update process. Even with the funds carried over from previous ACC update cycles and other proceedings,[10] the current funds are expected to run out by the end of 2023.

Sempra Utilities expressed reservations regarding whether additional costs should be authorized until there is more information on the scope of the 2024 ACC update.[11] Since the time parties submitted comments on the need for additional funding, the Staff Proposal for the 2024 ACC update process has been issued, laying out the scope of work planned for the 2024 ACC update.[12]

Based on the scope of work planned for the 2024 ACC update, the estimated cost for the 2024 ACC update is reasonable. Because there is not enough funding to meet the estimated cost, it is reasonable and appropriate to authorize an additional $250,000 in funds for the 2024 ACC update process. With the additional $250,000, in combination with the $100,000 in annual funding

[10] Carry-over funds consist of (1) $95,000 in funding carried over within the existing contract (Agreement Number 18PS5003), (2) $190,000 allocated from the Integrated Resources Planning proceeding (R.16-02-007) to support discrete tasks in support of that proceeding's overlapping goals within the ACC process (Agreement Number 18NC1043), and (3) $180,000 allocated from the Net Energy Metering Revisit proceeding (R.20-08-020) in support of development of the ACC to support that proceeding's overlapping goals within the ACC process.

[11] Joint Opening Comments of San Diego Gas & Electric Company and Southern California Gas Company on Administrative Law Judge Ruling Requesting Party Comments on Additional Reimbursable Funds for the 2024 Avoided Cost Calculator Update Process at 3.

[12] Administrative Law Judge's Ruling Issuing the 2024 Avoided Cost Calculator Staff Proposal for Party Input, Attachment A (Integrated Distributed Energy Resources (IDER) 2024 Avoided Cost Calculator (ACC) Staff Proposal).

authorized in D.16-06-007, a maximum amount of $350,000 in annual funding is authorized for the current 2024 ACC update process.

4.2. Increasing the Annual Funding for Subsequent Avoided Cost Calculator Updates to $350,000

When the Commission issued D.16-06-007, in which the Commission authorized $500,000 annually for the three years beginning 2016-2017 and $100,000 annually for the subsequent years, the Commission anticipated that the amount of work for the ACC update process would substantially decrease after the initial three years. However, as demonstrated by the 2020 and 2022 ACC update processes and the current 2024 ACC Staff Proposal, the amount of work required for the current ACC update process remains consistently high. Given the constantly evolving use and management of distributed energy resources, changing consumers' energy consumption patterns and behaviors, the changing portfolio of energy resources to meet the state's climate goals set in Senate Bill (SB) 350 and Assembly Bill (AB) 32, the continued involvement of multiple stakeholders, and the expanded use of the ACC, the amount of work expected for ACC updates remains high for the foreseeable future.

Because the level of work for recent ACC updates has remained high and the level of work for future ACC is expected to remain high, the annual allotment of $100,000 in funds to the ACC update is not sufficient. Therefore, increasing the annual amount of funds for the ACC update process to $350,000 is appropriate and ensures that future ACC updates would not be interrupted by insufficient funds.[13]

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[13] The budget authorized herein will be used for all future ACC updates, including the 2026 updates which will encompass research and analysis on avoided transmission and distribution costs pursuant to D.22-05-002.

5. Cost Recovery of the Memorandum Accounts

Rather than using memorandum accounts to record and recover the costs of the ACC updates, SCE and Sempra Utilities propose to instead record these costs in balancing accounts. SCE and Sempra Utilities explain that the utilities must demonstrate that the recorded costs are reasonable in their respective GRCs to get recovery of these costs. They argue that the reasonableness review is not necessary because the utilities have no control over how the ACC funds are spent, which have only been incurred by the Commission's Energy Division. They assert that their roles with the memorandum accounts are limited to providing reimbursements to the Commission.

SCE further argues that ratepayers are paying for interest expenses that accumulate in the memorandum accounts with the delays in recovery through the GRC process. A balancing account, according to SCE, allows the utilities to recover the actual costs up to the adopted maximum limit and thus minimizes the interest expenses associated with delayed cost recovery.

Sempra Utilities argue that the current process of submitting the costs for a reasonableness review prior to recovery adds a second reasonableness review to the process and is duplicative because the costs have already been considered through this rulemaking. In addition, Sempra Utilities assert that the delayed cost recovery restricts the utilities' cash flow.

The Commission affirms that a memorandum account treatment is appropriate given how these funds are authorized. A memorandum account allows only the incurred costs to be recorded but a balancing account requires ratepayers to fund the account upfront at the beginning of the year. Since we allow authorized unspent ACC funds to accumulate, the normal balancing account treatment does not work because unspent funds in balancing accounts are returned to ratepayers annually. If an exception is made to allow unspent funds to accumulate in the balancing account, ratepayers would then have to continually fund the account at the maximum $350,000 limit every year, even if the full authorized amount is not spent. Ratepayers would then unfairly bear the costs of funding the account even if the actual expenses for the ACC are less than the maximum amount authorized. For these reasons, it is reasonable and appropriate to retain memorandum account treatment for the ACC costs authorized in this decision. The utilities will continue to seek cost recovery of their respective ACC Memo Accounts in their respective GRCs.

6. 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. PCF, Pacific Gas and Electric Company (PG&E), SoCalGas, and SCE filed comments on November 9, 2023.

PCF states that the PD erred in pointing to the Cal eProcure website as the website where the public can access the contract between the Commission and E3. This error has been corrected in this decision. Even though the contract cannot be accessed through the website, the contract between the Commission and E3 is a public document. Any party may review the contract through submitting an inquiry pursuant to the Public Records Act. However, the contract between E3 and the Commission, which was executed prior to this proceeding, is not within the scope of this proceeding and is not subject to review or dispute in this proceeding. The Commission is not reviewing the reasonableness of the contract between E3 and the Commission and does not need to take party comments before authorizing additional ACC funding in this proceeding.

PG&E, SCE, and SoCalGas reiterated arguments they previously raised to request for balancing account treatment. These arguments were thoroughly considered and analyzed when the Commission came to the determination that retaining the memorandum account is more appropriate. SCE suggests a creative solution of creating a balancing account in which no amounts are included in rates on a forecast basis and incurred costs are recorded in the account and then transferred annually to the utility's respective distribution revenue balancing account. While the proposed solution is creative, this proposed balancing account does not allow accrued unspent amounts to be recorded, which a memorandum account does. Therefore, we affirm that a memorandum account treatment is the most appropriate mechanism to record the current ACC costs.

PG&E, SCE, and SoCalGas requests that the Commission remove the option for the utilities to be able to file an application for cost recovery if the account balances in their respective ACC Memo Accounts reach a threshold of one million dollars. Per the utilities' request, we removed this option from the decision.

In addition, SoCalGas and SCE clarify that the ACC memorandum account is currently authorized to track only the pass-through costs Energy Division expends toward the ACC process. This error has been corrected in the decision.

7. 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 expected work for the 2024 ACC update includes changing the baseline from the "no new DER" scenario to the IRP's preferred system plan;

establishing a methodology that calculates generation capacity and greenhouse gas avoided costs; modifying the generation capacity value to more accurately capture the reliability of battery storage resources; and calibrating and benchmarking SERVM prices.

2. The expected amount of work to conduct the 2024 ACC update process is comparable to the amount of work required for the 2022 ACC update process, in that both the 2022 and 2024 ACC updates require significant methodological changes.

3. The estimated costs of the 2024 ACC update process are consistent with the costs of the 2022 ACC update process.

4. The current funds are not sufficient to pay for expenses estimated to be needed for the 2024 ACC update process and are expected to run out by the end of 2023.

5. When the Commission issued D.16-06-007, the Commission anticipated that the amount of work for the ACC update process would substantially decrease over time after the initial three years.

6. As demonstrated by the 2020 and 2022 ACC update processes and the current 2024 ACC staff proposal, the amount of work required for the current ACC update process remains consistently high.

7. Given the constantly evolving use and management of distributed energy resources, changing consumers' energy consumption patterns and behaviors, the changing portfolio of energy resources to meet the state's climate goals set in SB 350 and AB 32, the continued involvement of multiple stakeholders, and the expanded use of the ACC, the amount of work expected for ACC updates remains high for the foreseeable future.

8. Because the level of work for recent ACC updates has remained high and the level of work for future ACC updates is expected to remain high, the annual allotment of $100,000 in funds to the ACC update process is not sufficient.

9. Increasing the annual amount of funds for the ACC update process to $350,000 ensures that future ACC updates would not be interrupted by insufficient funds.

Conclusions of Law

1. Given the comparable amount of work needed to conduct the 2022 ACC update and 2024 ACC update process, it is reasonable to estimate that the 2024 ACC update will cost as much as the 2022 ACC update process.

2. Based on the work planned for the 2024 ACC update process, the estimated cost for the 2024 ACC update process is reasonable.

3. It is reasonable and appropriate to authorize an additional $250,000 in funds for the 2024 ACC update process.

4. It is reasonable to increase the annual amount of funds for the ACC update process from $100,000 to $350,000.

5. It is reasonable and appropriate to retain memorandum account treatment for the annual ACC update process costs.

O R D E R

IT IS ORDERED that:

1. An additional $250,000 in reimbursable funds for the 2024 Avoided Cost Calculator (ACC) update is authorized. In combination with the $100,000 in annual funding authorized in Decision 16-06-007, a maximum amount of $350,000 in annual funding is authorized for the current 2024 ACC update process. Any costs incurred, up to the $350,000 maximum, 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) — and recorded in the utilities' respective Avoided Cost Calculator Update Memorandum Accounts. Any unspent funds shall be accumulated and carried over for use in future ACC updates.

2. The annual reimbursable fund for future Avoided Cost Calculator (ACC) updates shall be increased from $100,000 to $350,000. Any costs incurred, up to the $350,000 maximum per year in addition to any previously accumulated unspent funds, 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) — and recorded in the utilities' respective Avoided Cost Calculator Update Memorandum Accounts. Any unspent funds shall be accumulated and carried over for use in future ACC updates.

3. Within 60 days of the effective date 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 Ordering Paragraphs 1-2.

4. Rulemaking 22-11-013 remains open.

This order is effective today.

Dated November 30, 2023, at Sacramento, California.

ALICE REYNOLDS
President
GENEVIEVE SHIROMA
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners