

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

Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for the
Guidance, Planning, and Evaluation of
Integrated Demand-Side Resource Programs.

Rulemaking 14-10-003
(Filed October 2, 2014)

**COMMENTS OF ENVIRONMENTAL DEFENSE FUND ON THE ORDER
INSTITUTING RULEMAKING IN THE INTEGRATED DEMAND-SIDE RESOURCE
PROGRAM PROCEEDING**

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I. INTRODUCTION

The Environmental Defense Fund (EDF) thanks the California Public Utilities Commission (Commission) for this opportunity to comment on the Order Instituting Rulemaking (OIR) in R. 14-10-003, which aims to “create a consistent regulatory framework for the guidance, planning, and evaluation of integrated demand-side resource programs.”¹ This proceeding has the potential to be of tremendous import to ratepayers and the environment, resulting in more coordinated, cost-effective deployment of demand-side resources that are better tailored to individual customer segments, in addition to directly addressing distribution, transmission, and generation reliability needs.

EDF sees an important role for Customer Energy Solutions (CES) in facilitating the achievement of state goals limiting greenhouse gas pollution to 80% below 1990 levels by 2050, particularly as CES can serve to reduce carbon emissions from both the electricity and

¹ California Public Utilities Commission, *Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Demand-Side Resource Programs*, R. 14-10-003 (filed Oct. 2, 2014).

transportation sectors. CES' essential role in the context of this Integrated Demand-Side Management (IDSM) proceeding is "to best enable the utilities, other administrators, and electric market actors to offer a wide portfolio of demand modifying technologies that may be best tailored to the specific characteristics of individual customers."²

Customers have an essential role to play in investing in and adopting distributed energy resources (DER). Their participation can be catalyzed by creating clear incentives for investor-owned utilities (IOUs) to deliver DER, and for third parties to be confident they (and their customer-clients) can monetize the values associated with DERs. The IDSM proceeding creates an opportunity to develop incentive mechanisms for demand-side resources through CES. In so doing, this proceeding can enable a wide array of resources that simultaneously meet grid needs and enable increased reliance on zero-emission renewable resources. This proceeding also provides an opportunity to restructure IOU incentives to deploy CES, because it will "explore the current incentive structure for the management and shareholders of the electric and gas utilities to support demand reduction."³ Increasing and properly valuing clean energy resources are vital and inextricably linked issues in EDF's view.

EDF agrees with the priorities set forth in the OIR. In addition, we believe the following issues should be included in this proceeding's scope:

- 1) There is a critical need to create a CES decision-making and deployment framework that is informed by and integrated into key Commission proceedings and IOU business models, including planning and implementation processes. In particular, CES needs to be fully assimilated into distribution planning, tariff development, and

² *Id.* at 3.

³ *Id.*

- reliability planning, as reflected in resource adequacy assessments and long-term resource procurements. In addition, throughout these decision-making and planning processes, a careful eye should be kept on addressing environmental inequities.
- 2) In order to achieve California's environmental and economic goals, CES needs to be properly and comprehensively valued; in other words, it needs to be targeted by time and place to address grid, service, and customer needs that vary spatially and temporally. Consideration of how to incorporate these elements into the decision-making and planning process should be included in this proceeding. Part of full valuation of CES is enabling third parties to provide these values.
 - 3) Customer engagement efforts – including bill inserts, tariffs, and CES programs – should be integrated in a way that supports a consistent, animated effort to achieve Commission goals.
 - 4) Performance-based ratemaking should be considered in this proceeding, because rate-of-return ratemaking does not provide sufficient impetus for IOUs to maximize the use of available cost-effective IDSM. Furthermore, the IOUs should be incented to offer a platform to third parties that want to deliver cost-effective IDSM or work with third parties in other ways to properly value customers' DER investments and deliver this value to their customers. Since the current system for compensating IOUs does not create a robust incentive to maximize the potential benefits from IDSM, this proceeding ought to allow for contemplation of new utility business models.

II. DISCUSSION

A. The Commission should integrate CES into key planning and deployment processes.

Under current Commission and IOU planning paradigms, CES is typically designed without considering the specific, targeted benefits it could create for the distribution, transmission, and generation systems, or as an integrated means to achieve environmental goals. CES provides the Commission and IOUs with a superlative set of tools to cost-effectively ensure electric reliability while achieving environmental goals. However, because these tools are not immediately available to distribution and reliability planners they are under- and mis-utilized. Commission policies and IOU business models should be re-crafted in this proceeding to properly make use of CES.

For example, CES deployment should be readily available in the following contexts:

Distribution planning. Distribution engineers should routinely identify areas on the grid that would benefit from CES, serving to defer or avoid the need for more costly or environmentally damaging investments, and to encourage the deployment of preferred CES solutions when and where they are needed. This approach, in addition to coordination with other decision-making and planning processes, will be essential to ensuring the success of the newly-launched distribution resource planning (DRP) process.⁴ IOUs should be required to fully incorporate CES into their planning efforts, give these clean energy resources their full value, and use them to address distribution-level issues.

⁴ California Public Utilities Commission, *Order Instituting Rulemaking Regarding Policies, Procedures and Rules for Development of Distribution Resources Plans Pursuant to Public Utilities Code Section 769*, R. 14-08-013 (filed Aug. 14, 2014).

- *Tariff development.* The most effective way to change customer behavior is to combine well-crafted cost-based rates with supportive CES. This is particularly the case for innovative time-variant rates catering to residential and other classes. Tariff development and CES planning should be fully integrated, so that in all cases where it is beneficial, CES is used to support deployment of proper rates. Well-designed tariffs also create opportunities for third parties to profitably deliver IDSM.
- *Securing environmentally sustainable electricity reliability.* CES should not be treated as background noise to the traditional business of building additional transmission and fossil fuel generation capacity. Instead, CES should be secured and deployed to address reliability concerns where it is needed most. As the OIR opening memo notes, “the Public Utilities Code also directs corporations to first fulfill its unmet resource needs with energy efficiency and demand reduction programs.”⁵ For example, the full range of CES should be available to be procured on a preferred resource basis as part of Long-Term Procurement proceedings. That is, if approved levels of CES are insufficient to avoid the need for transmission or generation, additional amounts dedicated to specific places should be evaluated to determine if they can cost-effectively achieve the same goals, and, if they can, be expeditiously deployed in lieu of fossil fuel or transmission infrastructure.
- *Addressing environmental justice concerns:* Steps should be taken to ensure that CES is deployed in areas that have or are experiencing environmental inequities (e.g. those communities that are near power plants or large transmission yards). CES can be used to help people manage their bills while reducing pollution from traditional energy sources.

⁵ California Public Utilities Commission, *Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Demand-Side Resource Programs*, R. 14-10-003, at 5 (filed Oct. 2, 2014).

Furthermore, efforts should be made to use Assembly Bill (AB) 32 cap-and-trade funds or funds from other sources in deploying cost-effective DSM. This will support state goals that help to provide benefits to communities historically or currently disproportionately burdened by pollution associated with the electricity system; fewer emissions from peaker power plants will result in less pollution in parts of the state that are already burdened.

The current siloing of CES from the critical IOU functions of distribution planning, resource adequacy, long-term procurement planning, and rate development does not allow for full integration of CES, and prevents maximization of benefits. Identifying and adopting ways to overcome this fundamental challenge should be a key element in this proceeding.

B. CES will be most effective if it is targeted temporally and geographically.

As exhibited by recent directives and regulatory inquiries by the California Legislature and Commission, the time and place an energy resource is available critically informs its economic and environmental benefits. The DRP and residential rates proceedings both reflect the importance of timing and geographic placement. A similar, but ideally more comprehensive and precise framework, needs to be adopted to inform CES planning and deployment.

Creating appropriate decision-making and planning pathways to ensure the optimal siting of demand-side resources that are temporally available when they are needed most should be a primary focus of this proceeding. Priority should be given to creating a CES planning and deployment framework that contributes to ensuring cost-effective reliability, meets local and system needs, and helps achieve the state's environmental and clean energy goals - particularly

AB 32's greenhouse gas reduction requirements, the state's Renewable Portfolio Standard, and environmental justice goals.

C. The Commission needs to ensure that customer engagement is a core part of this proceeding.

A primary focus of this proceeding should be how to most effectively engage customers to help solve electrical grid and environmental problems. Rather than stove-piping different CES programs into their own proceedings and IOU institutional tracks, customer-side programs and initiatives should be comprehensively considered to ensure that customers can become an active part of the solution - receiving consistent, actionable information and options.

III. CONCLUSION

EDF thanks the Commission for the opportunity to comment on this OIR and looks forward to its continued involvement in the proceeding.

Respectfully signed and submitted on November 5, 2014

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