



MEMORANDUM

To: Local Government Sustainable Energy Coalition

From: Nathan Wyeth and Jody London, Regulatory Consultants

SUBJECT: New CPUC Proceeding on Integrated Demand Side Management (R.14-10-013)

DATE: October 13, 2014

This memo outlines a new proceeding at the California Public Utilities Commission (“CPUC”) on Integrated Demand-Side Management (“IDSM”) programs ([R.14-10-013](#)). The new rulemaking was voted out October 2, 2014 and is intended to create new consistency across multiple CPUC proceedings and move towards what the CPUC terms a “Customer Energy Solutions Framework.”

This proceeding is cross-cutting in nature and may impact existing energy efficiency programs. It relates closely to the Distribution Resources Plan proceeding (R.14-08-013) and could result in new shareholder incentives structures for utilities. The CPUC will take comments on the new Rulemaking on November 1, and reply comments on November 16, after which time it will determine the rest of the proceeding schedule. The first phase will focus on policy issues, and the second phase will provide an opportunity for parties to bring forward proposals for demonstration projects.

Overview

Existing policy is for utilities to procure all available cost-effective demand reduction and energy efficiency resources before new generation resources. This has previously been addressed primarily through energy efficiency proceedings. However to realize this policy more fully the CPUC sees it as necessary to create policy and enable programs that comprehensively address resources as diverse as demand response (“DR”), distributed generation (“DG”) and energy storage, smart grid, water-energy measures, electric vehicle (“EV”) hardware and innovative rate-design, in addition to energy efficiency (“EE”). While utilities currently offer Demand-Side Management (“DSM”) programs, the new Rulemaking notes that evaluation of existing programs points towards a lack of coordination and optimization for customer ease of participation and selection between different technologies and resources.

In addition to using this rulemaking to enable utilities to most effectively offer a “wide portfolio of demand modifying technologies,” the Commission will also explore updating or modifying the current incentive structure for investor-owned utilities (“IOUs”) to further support demand

reduction.

Background

The CPUC's efforts towards IDSM have existed since 2005, when utilities were first authorized to evaluate DR and DG in concert with EE to address electricity demand. A push for coordinated approaches across these technologies was adopted in the Long-Term Energy Efficiency Strategic Plan in 2008 and led to the creation of an IDSM Taskforce. This resulted in D.09-09-047, establishing a statewide IDSM program identifying tasks for IOUs to undertake in the 2010-2012 energy efficiency program cycle.

Based on an evaluation of these efforts, the CPUC believes that utility personnel have a good understanding of IDSM and have begun to use smart meters to integrate rate, cycling and behavior programs into EE programs. However, Integration Pilots were not designed with integration as a primary objective and there are several barriers to correcting this. Notably, the definition of IDSM is incomplete, timing and application processes for EE, DR, and DG program cycles do not align, and costs for integrated programs tend to be greater than for independent programs.

A lack of shared funding for Demand-Side Management programs was identified as a barrier to their success and the CPUC has previously directed IOUs to draw on EE program funding to backstop these efforts. However, the cost-effectiveness rubric for EE programs discourages the IOUs from diverting funds from EE programs to other DSM efforts that are not currently captured in the evaluation metric for the EE programs. This new rulemaking is intended to correct this.

Rulemaking

A wide range of prior and current proceedings are expected to inform this one. The CPUC explicitly notes potential overlap with many previous technology-specific proceedings addressing Alternative Fueled Vehicles, DR, DG, EE, energy storage, smart grid, water-energy nexus, Energy Upgrade California marketing, and residential rate reform.

In contrast, this rulemaking is intended to be technology-agnostic and may, in the words of the CPUC, result in "a major shift" in DSM policy including impacting cost-effectiveness methods, funding levels and sources, program implementation plans, and shareholder incentive mechanisms. Because of the focus on an overlapping set of technologies, this proceeding will also take place in coordination with R.14-08-013, which addresses Distribution Resources Plans, and in which the LGSEC has intervened.

The rulemaking will take place in two phases, identified as follows:

- **Phase I:** Creating a policy framework, possibly called the "Customer Energy Solutions Framework," that would cover DSM goals, cost-effectiveness methodology, funding authorizations, marketing/education, long-term planning, and evaluation. This policy would subsequently be applied to existing programs. At this time, the potential value of a unified shareholder incentive mechanism to cover all DSM resources, as well as

barriers to achieving the above coordination or changes necessary to existing cross-cutting policies, will also be evaluated. Promising market segments for pilot initiatives and requirements for the regulator, administrators and implementers of these programs will be identified.

- **Phase II:** Adopting a mechanism to achieve the goals or requirements adopted in Phase I.

Drawing on the recommendations made after evaluation of 2010-2012 efforts, we anticipate that the CPUC may look to develop a firm definition and tracking system for IDSM, a new funding mechanism for integrated programs, a new source of funding for DG, programs to influence the design of new power demand, and integrated training and outreach for third party implementers, among other ideas previously floated.

Attachment A of the rulemaking provides a summary of the key finding and recommendations; we may wish to use this as a starting point for any comments the LGSEC might submit.

Categorization & Schedule

The CPUC proposes Phase 1 of the rulemaking as a quasi-legislative proceeding (minimal *ex parte* rules) and Phase II as a ratesetting proceeding (more stringent *ex parte* rules) and intends to proceed through written comments and workshops, but not evidentiary hearings. The case has been assigned to Commissioner Peevey and Administrative Law Judge Kelly Hymes. It will be interesting to see if Commissioner Peevey pushes to move things forward before his term is over at the end of the year. The transition to a new Assigned Commissioner could create a delay.

The schedule for the proceeding is as follows:

DATE	EVENT
10/22/14	Deadline for Request to be on the Service List
11/07/14	Opening Comments Filed and Served
11/24/14	Reply Comments Filed and Served
TBD	Prehearing Conference (PHC)
TBD	Workshop on Phase I Issues
TBD	Issuance of Scoping Memo
Six Months from Issuance of the Scoping Memo	Proposed Decision on Phase I Issues
TBD	Proposals for Customer Energy Solutions Demonstrations Served
TBD	Workshop on Phase II Issues
30 days from Phase II Workshop	Workshop Report Regarding Concepts for Customer Energy Solutions Demonstrations and Implementation Issued to Service List for Comment

DATE	EVENT
18 Months from Issuance of the Scoping Memo	Proposed Decision on Phase II Issues

Next Steps

As indicated above, opening comments on the rulemaking are due Friday, November 7, and reply comments are due November 24. The CPUC has not provided any guidance beyond what is in the rulemaking, so it is fair to assume at this point that comments will focus on the issues identified in the rulemaking, and what else should be included (if anything). Beyond those comments, there is not a firm procedural schedule at this time.

Please contact Jody London with any questions or comments.