Local Government SUSTAINABLE ENERGY Coalition

P.O. Box 3629 · Oakland · California · 94609
510/459-0667

MEMORANDUM

TO: LGSEC Energy Efficiency and Distributed Generation Policy Committees

CC: LGSEC Board

FROM: Nathan Wyeth and Jody London, Regulatory Consultants

SUBJECT: Summary of Opening Comments on Integrated Demand Side Management Order Instituting Rulemaking (CPUC Docket R.14-10-003)

DATE: November 14, 2014

This memo summarizes comments submitted November 7 in the CPUC's new docket on Integrated Demand Side Management (R. 14-10-003). We received comments from 22 parties. Reply Comments are due November 24. As described at the end of this memo, the LGSEC will be coordinating with the Southern California Regional Energy Network on reply comments.

This rulemaking addresses the integration of Demand Side Management ("DSM") technologies in complementary ways such that they provide greater benefits to ratepayers and the grid than such technologies could provide individually. These include energy efficiency ("EE"), demand response ("DR"), energy storage ("ES"), distributed generation ("DG"), and electric vehicles ("EVs"). As we reported in a memo in October: "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." The rulemaking states the intent of the CPUC be agnostic as to technology in order to realize the potential presented by IDSM. The rulemaking also acknowledges this could "…result in 'a major shift' in DSM policy including impacting cost-effectiveness methods, funding levels and sources, program implementation plans and shareholder incentive mechanisms."

OVERVIEW OF COMMENTS

Key Topics

While generally agreeing on the potential technologies used in IDSM and the need for evaluation of their benefits and costs to the grid, commenters have interpreted the OIR to propose a wide range of program structures to address IDSM. Several key topics emerge as being of interest to many commenters.

- *Definition of technologies as DSM/IDSM* – While there is general agreement on which technologies might be considered for DSM or IDSM, commenters present differing visions of what the Commission should actually include in IDSM programs because of how these technologies are deployed and how programs could be organized. The Utility Reform Network ("TURN") suggests an exclusive focus on EE and DR because of the relatively mature markets that exist for these areas. In contrast, the Center for Sustainable Energy ("CSE") suggests defining IDSM in terms of technologies requiring customer adoption. Other commenters like the California Clean Energy Council ("CCEC") suggest administrative distinctions, such as allowing Investor Owned Utilities ("IOUs") to only manage EE programs and assets on their own property.
- *Focus on Customer Segments vs. Technology Agnosticism* – Parties other than the utilities have different views of how to best organize IDSM. Many commenters focus on the customer, but providers of technology like SolarCity urge a focus on crafting the most effective, technology-agnostic marketplace for IDSM. In contrast, commenters like CSE suggest a more proactive structuring of IDSM programs to target individual customer segments. CSE, the Environmental Defense Fund ("EDF"), and the Greenlining Institute highlight disadvantaged communities as one important such segment that deserves specific attention.
- *Role of IOUs* – The role of IOUs is heavily debated. Non-IOU commenters urge that IOUs be prevented from biasing the IDSM market in favor of solutions they provide, either through exclusion from IDSM programs or through affiliate transaction rules. Marin Clean Energy ("MCE") urges that IOUs should not serve as administrators of IDSM programs and instead serve as clearinghouses for data useful for program implementation. IOUs do not address these views directly but put forth in their comments descriptions of their existing DSM efforts and moves towards integrating them, as well as IDSM pilots.

Areas of Agreement

There is general agreement across commenters on certain topics:

- Many commenters, including IOUs and others, touched on tariffs and rate setting as a way to reach success in IDSM deployment. Many commenters suggest that utility shareholder incentives are an appropriate way to encourage IDSM results. (Although the Office of the Ratepayer Advocate also suggests that discussion of such mechanisms be held off until Phase 2 of the proceeding).
- There is clear desire expressed by many commenters, including IOUs, for the Commission to define the intended scope of the proceeding, which could be relatively narrow or far-reaching, and to define exactly how this will relate to open proceedings on Distributed Resource Planning and Net Energy Metering and ongoing programs like Energy Efficiency Portfolios.

- There is a strong emphasis by many commenters on the need to focus on customers. For example, the Southern California Regional Energy Network (“SoCalREN”) considers “vibrant retail energy markets” in relation to IDSM to be the benchmark for success.

Utilities

Comments by the utilities are relatively limited in scope and to a large extent focus on process-related suggestions. They also urge an emphasis on their existing DSM and IDSM programs and pilots. Pacific Gas & Electric (“PG&E”) and Southern California Edison (“SCE”) request that the Commission state clear objectives for this proceeding and its relation to others, specifically the Net Energy Metering (“NEM,” R.14-07-002) tariff proceeding and the Distributed Resources Plan (“DRP,” R.14-08-013) proceeding. SCE urges a longer, 9-10 month timeline for the proceeding and the inclusion of sub-phases, with a workshop to develop sub-phases held early in the proceeding. SDG&E urges the Commission to reduce the number of proceedings on EE and DR in the future and to fold these into IDSM proceedings; SDG&E blames some of the negative findings for existing IDSM efforts on the administrative burden created by multiple processes.

Both PG&E and SDG&E highlight their existing related efforts. In the case of PG&E, it notes better internal coordination of the programs that could constitute IDSM. SDG&E notes specific programs that integrate DSM measures or could be integrated. SDG&E specifically urges that with an IDSM approach, existing technology-specific mandates should be eliminated and new ones should be avoided. Based on the need for IDSM programs to use pricing signals to promote effective use of technologies as intended, such as battery charging for ES or EVs at non-peak hours, SDG&E also suggests that rate reform should be part of IDSM.

DSM Technology Providers & Clean Energy Advocates

A range of clean energy providers and advocates make aligned comments in relation to inputs into cost-benefit analysis for IDSM, programs that are technology-agnostic, and standardization. They too call for clarification on the relationship between this proceeding and the Distribution Resources Plan proceeding. The California Energy Efficiency Industry Council (“Industry Council”) also calls for funding for IDSM programs separate from funding for EE portfolios and EE pilots.

- SolarCity and the CCEC each suggest that standardization of both processes and technology, specifically communication protocols and open communication architecture between technologies, would benefit market transformation. SolarCity proposes a single statewide administrator. CCEC also makes specific suggestions that IOUs should create ‘testing environments’ for IDSM technology providers to utilize.
- SolarCity and CCEC both comment on data, although with different focus. SolarCity notes the importance of integrating both utility customer data and data from DG

production to arrive at a complete picture of the distribution grid. CCEC takes a strong stance on customer data, urging an opt-out system for sharing utility customer data.
- There is a consistent emphasis by commenters including the CCEC, SolarCity, and the Industry Council on technology-agnostic approaches, customer centric approaches, and a market not biased in favor of IOUs. However, commenters diverge on roles and definitions. CCEC urges restricting IOU involvement with IDSM to energy efficiency and assets that are deployed on their own property. The CSE suggests streamlining the definition of IDSM to be technologies that require customer adoption, and urges the Commission to focus on segmenting customers to maximize adoption of specific 'bundles' of DSM technologies. SolarCity simply urges that IDSM values be defined as technology-neutral needs of the grid, so that any DSM technology can potentially respond to them.
- Finally, both the Clean Coalition and SolarCity note the potential value of different rate-setting approaches in encouraging IDSM, including a suggestion from SolarCity for a low tariff for DSM customers who are willing to forgo reliability guarantees from the grid.

Environmental Advocates

The Natural Resources Defense Council ("NRDC") suggests that the Commission should examine a process for utilities to allocate up to 15% of revenues from GHG allowances towards IDSM. NRDC also suggests that there is particular opportunity to advance EVs through integration with energy efficiency and distributed generation, and vice versa, based on customer tendency to adopt these in tandem. Finally NRDC suggests establishing a definition of "incremental EE" for all-source Requests for Offers for resource procurements. The other environmental advocate to comment, EDF, urges the assimilation of the Customer Energy Solutions Framework into a wide variety of Commission proceedings on distribution planning, reliability planning, tariffs, and resource adequacy, so the Framework can be used to address reliability needs in locations where it is needed most.

With regard to the role of IOUs, EDF suggests that performance-based ratemaking should be considered, incentivizing IOUs to offer platforms for third parties to deliver IDSM, thereby enabling the customer engagement that should be a major focus of this proceeding.

Ratepayer Advocates

TURN voices a contrary perspective and lays out several arguments for simplifying the proceeding:
- Based on concerns that a Customer Energy Solutions Framework will be a large administrative effort that will be overwhelming and ineffective, TURN suggests a streamlined focus on EE and DR, where markets are mature. In such an approach, TURN suggests a focus on minimizing customer acquisition.
- TURN cites a report by Itron to note the importance of customer relationships in EE and

DR adoption and suggests that utilities are best placed to administer these programs as a result. TURN suggests customer segmentation along residential and commercial lines, based on the different ways that these types of customers adopt and use IDSM technologies; for residential customers it is more about combining the purchase of technologies, while commercial customers are actually integrating technologies operationally.

- Finally, TURN suggests splitting energy efficiency and demand response from energy storage, distributed generation, and electric vehicles, among others, because utilities have a more complicated set of incentives for these and don't necessarily control them. TURN suggests a different set of policies may be needed for this second batch of technologies.

Finally, TURN requests that SCE report on the outcomes of its recent all-source Request for Offers to inform this proceeding.

The Office of Ratepayer Advocates ("ORA") made limited comments, focusing on process. ORA requests clarity from the Commission on the intended scope of the proceeding – whether it will be far-reaching or limited – and suggests it would be most effective to address cost-benefit analysis for IDSM in Phase 1 and to not address shareholder utility incentives until Phase 2, so that IOUs do not feel conflicted in sharing information freely in Phase 1. ORA also notes the absence of consumer financing programs in the OIR and suggests this should be added.

Local Government

The SoCalREN urges a focus on 'vibrant retail energy markets' as the ultimate measure of and means to reach success with IDSM. Towards this end, it recommends that the proceeding identify "goalposts" to track progress towards market transformation. To achieve this, the SoCalREN sees the need for balanced treatment of IDSM under different CPUC programs, where program siloes currently create huge confusion. It urges IDSM be incorporated into the new rolling EE portfolios. In joint comments, the Bay Area Regional Energy Network ("BayREN") and Local Government Sustainable Energy Coalition ("LGSEC") urge that IDSM be coordinated with local governments and their Climate Action Plans.

Marin Clean Energy ("MCE") offers comments based on its direct experience as an administrator of IDSM programs with dependencies on PG&E for their success. As a result, MCE strongly advocates that IOUs should not administer IDSM programs but rather be pushed with shareholder incentives to become information clearinghouses to facilitate IDSM administered by others. Specifically, MCE advocates for local governments to have the right of first refusal to play this administrative role.

To surface existing IDSM work outside the pilots by IOUs cited by the OIR, MCE suggests a workshop in Phase 1 to identify other existing work.

<u>Other Interests</u>

Bloom Energy (a fuel cell manufacturer), the California Energy Storage Association ("CESA"), and the Energy Producers and Users Coalition ("EPUC") advocate the inclusion of fuel cells, energy storage, and combined heat and power ("CHP") as IDSM technologies. CESA specifically lays out methods for how to value slow, fast, short, and long duration DR and highlights the need to recognize the specific value of highly dispatchable energy sources in relation to DR. CESA urges the development of a variety of procurement mechanisms for IDSM, including multi-year contracts that enable private sector investment.

The Farm Bureau comments that tariffs remain the key driver of the adoption of DSM measures for agriculture, but that smart tariffs could create new adoption including of technology specifically relevant to conserving water as well as energy.

NEXT STEPS

Reply comments on the rulemaking are due Monday, November 24. The LGSEC Board has decided to partner with the SoCalREN in developing reply comments. We will have a draft for you to review the middle of next week. Please send any ideas you have now for the reply comments to Jody London and Michael Nguyen, mnguyen@energycoalition.org.

If you'd like to review the actual comments, they are posted on the CPUC web site.

Please contact Jody London with any questions or comments.