



## MEMORANDUM

**TO:** LGSEC Energy Efficiency and Distributed Generation Policy Committees

**CC:** LGSEC Board

**FROM:** Nathan Wyeth and Jody London, Regulatory Consultants

**SUBJECT:** Update on Integrated Demand Side Management Order Instituting Rulemaking (CPUC Docket R.14-10-003)

**DATE:** December 8, 2014

This memo summarizes the December 5, 2014 prehearing conference in the California Public Utilities Commission (“CPUC”) Order Instituting Rulemaking (“OIR”) on Integrated Demand Side Management (R.14-10-003), and also reply comments submitted November 24. The goal of this proceeding is to identify routes to bring together disparate, technology-focused Demand Side Management (“DSM”) programs to attain the potential gains from integrated approaches to such technologies as energy efficiency, demand response, energy storage, electric vehicles and distributed generation.

In previous memos, we summarized this OIR and opening comments. Opening comments focused on such topics as:

- The specific technologies to be included in IDSM approaches – whether this should be limited to better established technologies like energy efficiency (“EE”) and demand response (“DR”) or not.
- The role of investor-owned utilities (“IOUs”), local governments and third-party technology providers in IDSM programs and the appropriate setup for administrative entities.
- The importance of access to customer data and the appropriate role of IOUs in providing this data.

The prehearing conference is a scheduling meeting at which the Administrative Law Judge discusses on the record with the parties the issues, scope, and activities for the proceeding, as well as timing. Friday's PHC was presided over by ALJ Kelly Hymes and Assigned Commissioner Mike Florio. It appears from the discussion Friday that the proceeding will likely commence with two days of workshops that will review ongoing IDSM projects and examine where to go from here. Commissioner Florio also encouraged parties to circulate to the service list at any time ideas related to this proceeding. He said no need to worry about comments or invitations from the ALJ, just get the ideas out there.

Details on the Prehearing Conference and Reply Comments are provided below.

## PREHEARING CONFERENCE

### Service List

The first 30-40 minutes of the prehearing conference were devoted to determining who has party status. Apparently there's been some confusion within the CPUC Process Office or something and many parties who had submitted opening or reply comments were not listed as parties.

### Hearings, Workshops

No party thinks the CPUC needs to hold evidentiary hearings in this proceeding. I encouraged Commissioner Florio and ALJ Hymes to use *en banc* hearings of the full Commission to allow Commissioners to understand the scope of ideas. I suggested that this proceeding could consider very innovative ideas, for example the proposal from the BayREN and LGSEC to move to a metric that measures reductions in greenhouse gas emissions as opposed to the status quo energy savings. This suggestion stems from recent complaints from CPUC Commissioners about the Bagley-Keene Act restricting their ability to communicate with one another. I suggested that if they schedule the discussions as open meetings, they can talk all they want.<sup>1</sup>

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<sup>1</sup> I had an opportunity to discuss this idea briefly with an advisory to one of the Commissioners, who bristled at the idea that the Commissioners would discuss issues from the floor without talking points. I suggested that staff could brief the Commissioners in advance, and tried to point out that study sessions and ad hoc discussion are routine among elected officials.

Southern California Edison has proposed the CPUC hold a workshop solely on scope. The ALJ questioned whether the proceeding should look at a narrow or broad definition of IDSM. Some parties (TURN, ORA) argued for narrow. Others of us argued for a broad definition.

The ALJ and Commissioner Florio are also grappling with what happens in ongoing proceedings if the CPUC makes decisions that change assumptions under which they are working. At this point, I urged the CPUC to be bold, to look at the ultimate goals of reducing greenhouse gas emissions. I pointed out that local governments at this point are managing around how to adapt to climate change, not how to prevent it, and the CPUC needs to be looking more broadly. As I sat down, many hands went up to echo and build on my comments, and several people came up to me after the prehearing conference to thank me for opening up the discussion. That said, I still sense hesitancy from the CPUC decision makers to take bold action. I think there are definitely some who think the CPUC should set out the IDSM policies and goals and let the other proceedings adapt, and others, probably fewer, who would favor a more status quo approach.

SCE raised a couple of times the need for guidance from the CPUC on how to integrate demand side solutions, and pointed to the Preferred Resources pilot as an example. It sounds like SCE would like a better understanding of what problems it should be solving. Other parties echoed the call for clear goals.

The Center for Energy Efficiency and Renewable Technologies requested that if the CPUC decides to work out solutions through workshops, it assign staff to be at any meeting to indicate if the parties are on track. Several parties referred to the valuable process in which they engaged to develop a settlement in the demand response proceeding. That settlement was approved by the Commission Thursday, but with significant modifications and cutting remarks from Commissioners Peevey and Picker about the parties not meeting the Commission's goals and moving too slowly. People who were part of the settlement told me that no one from the Commission participated in the settlement, including ALJ Hymes, who is now the ALJ in this IDSM case.

### Next Steps

Commissioner Florio distanced himself from the OIR, saying that he was not involved in its writing. His only predisposition is that the current silos are a

problem. He understands that the outcome of this proceeding will be structural, at a high level, not in the weeds, and will cut across several proceedings. He told parties he will not tolerate forum shopping, so don't bring to this proceeding an issue on which you've lost elsewhere.

Florio also encouraged parties if they have ideas for this proceeding to just circulate them to the service list. No need to be invited by a ruling, and no need to respond. He's interested in getting ideas out there.

ALJ Hymes indicated that at this time, she's leaning toward a two-day workshop that will spend one day reviewing ongoing programs related to IDSM and current barriers, and the next day looking at scope and goals for this proceeding.

## REPLY COMMENTS

Reply comments submitted November 24 added to the discussion of these key topics and also addressed some procedural concerns.

*Technologies:* Many commenters, including IOUs PG&E and Southern California Edison as well as environmental advocates and third-party providers of DSM technologies, noted their opposition to suggestions by The Utility Reform Network ("TURN") that IDSM be limited to EE and DR. Articulating this position, the Environmental Defense Fund ("EDF") voiced that it is particularly *because* other technologies are fragmented and not yet well established in the marketplace that they should be included. TURN appears to be the only party strongly advocating limiting the technology focus of IDSM programs.

*Administration and Roles of IOUs:* This topic is contentious, with comments on the roles of IOUs voiced strongly by many organizations. The Center for Sustainable Energy ("CSE") provides in its reply comments a comprehensive summary of four approaches articulated in comments:

1. *Administration by IOUs.* SoCalGas articulates the general position of the IOUs in citing the Commission's previous conclusions that IOUs are best situated to administer EE programs, and suggests that this conclusion should apply to IDSM more broadly. CSE agrees with commenters such as the Office of Ratepayer Advocates ("ORA") and Marin Clean Energy

(“MCE”), EDF, and TURN that even with shareholder incentives, IOUs are not ideally situated to administer IDSM programs.

2. *Competitive solicitations for program management, facilitated by IOUs* (as proposed by TURN). CSE notes that it believes this could serve a useful purpose but would not replace market transformation approaches that have proved successful in other contexts.
3. *A Single, statewide, non-IOU administrative entity*, as proposed by SolarCity, like the Single-Family Affordable Solar Housing and Energy Upgrade California programs. CSE notes that in the northeast U.S., such state and regional market transformation programs have proven very successful. In separate reply comments, ORA supports examining this approach as well as the local government approach, below.
4. *Local government administration*, as proposed by MCE. CSE expresses its concern that this could increase complexity but suggests a modification to combine a single statewide administrative entity that involves third-party implementers including local governments. Both CSE and TURN note that local entities have better relationships with residential customers than IOUs, which focus their relationship management efforts on larger, commercial customers.

IOUs such as PG&E specifically oppose a shift towards non-IOU administration. PG&E suggests that before local governments are given administration of IDSM programs, the effectiveness of Regional Energy Networks for EE programs should be evaluated to see if local governments are well suited to this role. PG&E also urges the Commission to ignore comments by MCE that affiliate transaction rules should preclude IOUs from administering IDSM programs.

*Data:* As in other proceedings, IOUs like SCE and PG&E oppose focusing on data access in this proceeding, which they consider “re-litigating” these issues from such proceedings as the Smart Grid Rulemaking. PG&E responds to MCE’s comments on data by suggesting that programs already in the process of being implemented, to be online in early 2015, will provide access to Advanced Metering Infrastructure data useful for IDSM that MCE has suggested PG&E has not been willing to share. Notably, TURN suggests evaluating data access for IDSM programs per MCE’s comments that this is a barrier to effective program administration. CSE also supports examining access to data.

*Additional/Procedural Topics:*

- *Shareholder Incentives:* There is disagreement in reply comments on whether it is advantageous and appropriate to address IOU shareholder incentives in Phase 1 of the proceedings. TURN and ORA reiterate that it is premature to do so in Phase 1. EDF and SCE advocate for their inclusion in Phase 1.
- *Rate-Setting:* Commenters address both the classification of the proceeding and the appropriate venue for addressing rate-setting. TURN opposes comments from the California Energy Storage Association (“CESA”) and San Diego Gas & Electric (“SDG&E”) that rate reform should play a role in IDSM and urges that any such reforms should go in rate design proceedings. Alongside this, Southern California Edison (“SCE”) disagrees with MCE that this proceeding should be classified as ratesetting, instead suggesting it should remain quasi-legislative. On a related note, PG&E opposes CESA suggestions for specific rates for different energy storage technologies, commenting that this would privilege storage over other DSM technologies.
- *GHG Allowances:* PG&E responds specifically to a suggestion from the Natural Resources Defense Council (“NRDC”) that 15% of IOU revenue from greenhouse gas allowances be dedicated to IDSM programs, noting that they believe this should be returned to ratepayers and do not wish to address this topic in this proceeding.
- *Relationships to Other Proceedings:* PG&E responds to several technology-specific comments by suggesting that it is more appropriate to address such topics in individual proceedings. This is the case with comments from CESA on energy storage, SolarCity on adding societal benefits to avoided cost methodologies, and NRDC on examining electric vehicles in great depth in this proceeding (suggesting that IDSM should be informed by the conclusion of the open electric vehicle proceeding).
- *Workshops:* The California Clean Energy Committee notes its support for having a workshop on existing IDSM programs in California that are outside the IOUs’ efforts. SCE also responded affirmatively to TURN’s suggestion

that it present at a workshop on its experience with the Local Capacity Request for Offers that it has just completed.

Please contact Jody London with any questions or comments.