Local Government SUSTAINABLE ENERGY Coalition

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COMMENTS OF THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION ON COST-EFFECTIVENESS FOR DEMAND SIDE RESOURCES (R.14-07-003)

October 30, 2015

As directed by ALJ Hymes in her ruling of October 9, 2015, the Local Government Sustainable Energy Coalition ("LGSEC")[1] submits this informal response to the questions posed in the Ruling. This opportunity to provide input ahead of the working group process is most welcome. We encourage the CPUC Commissioners and staff to continue to provide opportunities for parties that cannot participate in an extended working group process to continue to engage in the development of a cost-effectiveness framework for demand side resources.

PART I: For general feedback on the phased proposal

1. *Do you support the phased approach, as recommended in the Staff Proposal? Why?*

Yes, the LGSEC supports the phased approach recommended in the Staff Proposal. The LGSEC recommends eliminating Phase 1. We do not believe that the Commission should spend resources improving the existing framework, which is inadequate in supporting new State policies and goals. As described in the Staff Proposal, there are many varieties of "cost-effectiveness" in use today. The current cost-effectiveness models do not look at metered data. Instead, they attempt to measure what did not happen. This leads to unneeded complexity and is inconsistent in particular with AB 802, which requires the CPUC to measure energy savings "taking into consideration the overall reduction in normalized metered energy consumption as a measure of energy savings."

[1] Across California, cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities are members of the LGSEC. Each of these organizations may have different views on elements of these comments, which were approved by the LGSEC's Board.

Rather than spend resources fixing a system that is not doing what we need it to do, the Commission and stakeholders should direct their attention to building a better system that could help the State achieve the target outcomes. The end goal should be to develop and adopt a cost-effective model for all resources (i.e., demand-side and supply-side resources) that accurately reflects State policies and goals. The LGSEC supports the Commission's efforts to ensure that demand-side resources (i.e., energy efficiency, demand respond, distributed generation, distributed storage, and others) receive their proper due the in CEC's and CAISO's resource planning processes.[2] Therefore, the focus of the framework development should be attaining consistent and compatible cost-effectiveness methodology for both the demand-side and supply-side resources. This approach ensures that both demand-side and supply-side resources could be evaluated on an equal basis, and allow full consideration of demand-side resources in the system procurement processes.

2. *Does each phase appropriately describe the required activities and objectives?*

The LGSEC comments and recommendation on each phase as follow:

- Phase 1: Improve the existing cost-effectiveness framework. The phase can be eliminated. The Commission should not spend resources improving an existing framework that is inadequate in supporting the new State policies and goals;
- Phase 2: Coordination with the Distributed Resources Plan proceeding. This Phase should work to align demand-side resource cost-effectiveness methodologies with supply-side needs;
- Phase 3: Improve cost-effectiveness models and methods. Based on the findings in Phase 2, develop a unified cost-effectiveness framework for evaluating the demand-side and supply-side resources on an equal basis. The framework must be established first before the model could be developed; and
- Phase-4: Expand the demand-side cost-effectiveness framework. Based on the cost-effectiveness framework developed in Phase 3, develop a unified cost-effective model

[2] R.13-11-005 on Energy Efficiency Rolling Portfolio, page 9.

for evaluating both demand-side and supply-side resources on an equal basis. The CEC's and CAISO's resource planning and procurement processes should use this unified cost-effectiveness model.

3. *Do any of the phases need to be eliminated or modified? Are additional phases needed?*

As noted above:

- Phase 1 should be eliminated;
- Phase 2 should be modified to focus on gap analysis;
- Phase 3 should be modified to focus on developing a unified cost-effective framework for evaluating demand-side and supply-side resources on an equal basis; and
- Phase 4 should be modified to focus on developing a unified cost-effectiveness model based on the established unified framework.

4. *Is the chronological order of the four phases appropriate? Are there any phases that should happen in parallel?*

See comments above.

PART II: For Phase 1 cost-effectiveness issues:

1. *Are the Phase 1 objectives appropriate and useful?*

See comments above.

2. *Given that ongoing proceedings, such as the Distributed Resources Plans proceeding (R.14-08-013), are discussing modifications to the avoided cost framework, are there any objectives from Phase 1 of the Staff Proposal that need to be added, omitted, or coordinated across proceedings?*

The LGSEC recommends:

- Both DRP and IDER proceedings need to be consistent with AB 802 mandates, such as:
    - Energy performance baseline based on a building's existing conditions;

    - Expected multiyear savings from operational, behavioral, and retro-commissioning activities;
    - Incorporate meter-based performance into determination of cost-effectiveness.
- Evaluation of demand-side resources needs to be based on metered impacts instead of an avoided-cost framework. A resource evaluation based on metered impacts would allow more consistent and reliable determination of the resource effects on grid operations;
- Include the societal and non-energy costs and benefits in the cost-effectiveness model for both demand-side and supply-side resources; and
- Adopt a unified cost-effectiveness model for both demand-side and supply-side resources.

3. *In comments made in R. 09-11-014 (the Energy Efficiency Rulemaking), parties advocated using only long-term avoided generation capacity costs for energy efficiency, as is done for the demand response programs. This effectively eliminated the need for the Resource Balance Year. Other parties advocated for the use of a consistent periodically-updated Resource Balance Year for all resources. Is it appropriate for all demand-side resources to use a Resource Balance Year (i.e., include both short- and long-term avoided generation capacity costs)? If so, should it be consistent across demand-side resources?*

In order for demand-side resources to receive full consideration in system resource planning and procurement, all demand-side resources should undergo the same evaluation protocol as supply-side resources.

4. *Phase 3 of the Staff Proposal recommends the development of a societal test for all demand-side resources. As noted in the Cost-Effectiveness Mapping Project spreadsheet, variations of societal cost tests have been used to evaluate distributed generation resources in the past but those tests have not been used for other demand-side resources. Given that one of the goals in Phase 1 is to establish improved consistency and clearer policies related to the determination and use of the cost-effectiveness calculations, should the development and use of a societal test be a priority for Phase 1 of the cost-effectiveness work in this proceeding?*

All societal and non-energy costs/benefits must be embedded in the unified cost-effectiveness framework for both demand-side and supply-side resources. Per above comments, the LGSEC

urges the Commission to coordinate the Distributed Resources Plan (R.14-08-013) and Integrated Demand Side Resources (R.14-10-003) proceedings to ensure consistency between the demand-side resource cost-effectiveness methodology and the supply-side, as a first step in developing the cost-effectiveness framework.

5. *If we defer the development of a societal test to Phase 3, should the societal and other non-energy costs and benefits currently included in the TRC remain? This includes the avoided greenhouse gas cost, and the optional non-energy, market, and reliability benefits included in the demand response framework. If we defer the development of a societal test to Phase 3, should we develop guidelines for the societal tests used to evaluate customer generation technologies, as required by Decision 09-08-026?*

See comments above.

6. *The Staff Proposal recommends the development of a societal test and also recommends that staff maintain and update the avoided cost model. Should the Commission consider the authorization of reimbursable funds (hypothetically up to $500,000) for Commission staff to (a) maintain and version-control the avoided cost model and clean up any inconsistencies across proceedings; (b) develop a societal test and related guidance for its use (if supported by decision-makers); and (c) generally support Commission staff's furtherance of the Integrated Demand-Side Cost-effectiveness Mapping Project Report and Staff Proposal? If so, how should the costs be allocated across program administrators and collected in rates? Should the allocation be proportional to energy sales? Should the General Rate Case or Public Purpose Program surcharges be leveraged? What about activities (e.g., demand response, storage) that are not funded by Public Purpose Program surcharges?*

In response to (a), as stated above, the Commission should not spend resources improving the existing framework that is inadequate in supporting the new State policies and goals. In response to (b), all societal and non-energy costs/benefits should be embedded in the unified cost-effectiveness framework for both demand-side and supply-side resources. In response to (c), the LGSEC believes these questions are not applicable because the LGSEC recommends that the Commission not spend resources on furtherance of a framework that is inadequate in supporting the State's new policies and goals.