

Energy Policy-Related Proceedings before the Commission 2014

Prepared by Chief Judge Sullivan, Assistant Chief Judges Duda and Ebke, and Nilgun Atamturk of PPD, April 8, 2014. Many of the proceedings listed in this memo are directly impacted by AB 327. We plan to provide another memo in the next few weeks to reflect the interrelation of the issues raised by AB 327 in these various proceedings.

What to Expect in 2014 (and Beyond)

The Administrative Law Judge (ALJ) Division is currently engaged in active case management of a series of interrelated energy policy cases that, when decided, will continue to shape California's energy policy. This memorandum groups these proceedings into several categories in order to facilitate an understanding of the policies emerging from these different cases.

I. Infrastructure Proceedings and Policies – Meeting Power Demand through Supply

A. Power Now and in the Future

Utility power procurement policies are developed and the utility procurement plans are considered in the Commission's Long-Term Procurement Plan (LTPP) proceeding with the goal of ensuring adequate and reliable power supply throughout California. These proceedings are lengthy, involve complex technical issues, and take place in the context of Energy Action Plan II and other state energy policies, such as greenhouse gas reduction goals.

- **Rulemaking (R.) 12-03-014** (ALJ Gamson/Commissioner Florio), the most recent LTPP proceeding, aims to determine long-term resource needs for system as well as local reliability needs through 2022. The most recent decision in this proceeding (D.14-03-004) authorizes SCE to acquire an additional 500-700 MW of generation capacity, with a minimum of 400 MW from "preferred resources."¹ It also authorizes SDG&E to procure 500 to 800 MW of generation capacity, with a minimum requirement of 200 MW from preferred resources.
- **Successor Proceedings:** The 2014 LTPP Rulemaking, **R.13-12-010**, will consider issues related to the overall long-term need for new system reliability resources through 2024 (ALJ Gamson/Commissioner Picker). System reliability filings are expected in August 2014, with a proposed decision by Q1 2015. In addition, the 2014 LTPP rulemaking requires the major electric utilities to file bundled procurement plans, expected in Q3 2014.

B. Power for Reliability Needs

Resource Adequacy (RA) proceedings promote new infrastructure development by ensuring that utilities procure sufficient capacity necessary for safe and reliable operation of the grid.

- **R.11-10-023** (Judge Gamson/Commissioner Florio), the current RA proceeding, annually focuses on local reliability needs on a one-year forward-basis. Starting this year, the RA proceeding will

¹ Preferred resources are defined as "low or non-polluting resources." This includes energy efficiency savings, demand response reductions in use and renewable energy.

annually determine flexible capacity needs on a one-year forward basis as well. This proceeding also determines “counting rules” for determining RA for each type of generation source, which results in a “net qualifying capacity” list for each California generator every year. This proceeding has already determined capacity needs in areas with local constraints for 2014 and is now considering local and flexible capacity needs for 2015. A proposed decision is expected in June 2014.

- **R.14-02-001** (Judges Kersten and Gamson/Commissioner Peterman) addresses whether and how to modify California’s resource adequacy and long-term procurements programs and the transmission planning process in response to the conceptual Joint Reliability Plan adopted by the Commission and the California Independent System Operator (CAISO) Board of Governors. Three tracks in the proceeding include: 1) Two- and three-year forward-looking resource adequacy procurement requirements; 2) Implementing a long term joint reliability planning assessment with the CAISO and California Energy Commission (CEC); and 3) Determining rules and Commission policy positions with respect to the CAISO’s potential development of a backstop procurement mechanism to succeed its existing Capacity Procurement Mechanism which expires in 2016. Major work in this area will take place throughout 2014, with workshops, staff proposals, comment cycles, and rulings. Proposed decisions are not expected until late 2014 or early 2015.

C. Renewable Portfolio Standards (RPS)

The California RPS program, established in 2002 under Senate Bill (SB) 1078, accelerated in 2006 under SB 107, and expanded in 2011 under SB 2, is one of the most ambitious and successful programs for renewable energy in the country. It requires investor-owned utilities, electric service providers, and community choice aggregators to increase procurement from eligible renewable energy sources to 33% by 2020. The Commission is responsible for determining annual procurement targets and enforcing compliance to achieve this goal. In addition, the Commission reviews and approves each utility’s renewable energy procurement plan, reviews procurement contracts for RPS-eligible energy, and establishes standard terms and conditions for the procurement contracts.

- **R.11-05-005** (Judges Simon and DeAngelis/Commissioner Peterman) is the proceeding that seeks to manage California’s renewables policy going forward. It handles administration of the RPS program as well as implementation of new RPS-related statutory requirements and Commission mandates. Currently, the proceeding is highly complex, focusing on diverse issues such as “counting” which resources are “renewable,” determining enforcement penalties for missing targets (PD expected in the 1st quarter 2014), setting limits on procurement expenditures (PD expected in the 2nd quarter 2014), bio-energy policies (PD expected in the 2nd quarter), procurement process improvements (PD expected in the 2nd quarter), revising least cost-best fit methodology (PD expected in the 3rd quarter), approval of 2014 procurement plans (PD expected in the 3rd quarter), and refinement of RPS confidentiality rules (PD expected in the 4th quarter).

D. Distributed Generation

The CPUC implements distributed generation (DG) programs on both the customer and utility side of the electric meter. Customer-side of the meter DG incentive programs include the California Solar Initiative (CSI) and the Self-Generation Incentive Program (SGIP). Incentives provided through solar programs not

only expand the number of solar system installations, but they also promote innovation in solar technology. The California Solar Initiative (CSI) Program has a goal to install 1,940 MW of new solar by 2017.

- **R.12-11-005** (Judges MacDonald and Hecht/Commissioner Peevey) provides ongoing review, oversight, and evaluation of current solar programs such as CSI and SGIP. This rulemaking also develops new policies to implement AB 327. The Commission adopted **D.14-03-041** on March 27, 2014, which establishes a transition program for those currently on the Net Energy Metering (NEM) program (as required by AB 327). In addition, AB 327 requires that the CPUC to develop a new standard contract or tariff, which may include Net Energy Metering (NEM), by December 2015. To accomplish this, the assigned judges are working with Energy Division to draft a separate rulemaking as the vehicle to develop the new standard contract or tariff by the December 2015 deadline, as required by AB 327.

E. Interconnection

- **R.11-09-011** (Judge Bushey/Commissioner Picker) aims to improve distribution level interconnection tariff rules and related regulations. Phase I of this proceeding adopted revisions to Rule 21 to facilitate the interconnection of smaller distributed generation (approximately 1 MW to 5 MW). Phase II of the proceeding seeks to incorporate a group study process for generators seeking interconnection to the distribution system. A proposed decision for Phase II is now pending before the Commission and first appeared on the CPUC Agenda on March 13, 2014. A PHC was held on February 19, 2014 with the intent of initiating Phase III, which will consider modifications to Rule 21 to accommodate the use of advanced functions by inverters, referred as “smart inverters.”

II. Demand-Side Proceedings and Policies - Managing and Reducing Demand for Power

A. Energy Efficiency

- **R.13-11-005** (Judge Edmister/Commissioner Peevey) considers a significant redesign of the ratepayer funded EE programs away from a triennial planning and budgeting framework and toward rolling portfolios. A “Rolling Portfolio,” is defined as a portfolio of energy efficiency programs with a Commission-approved long-term funding (e.g., 10 years); periodically adjusted as circumstances warrant, rather than on a fixed schedule; and, with a funding renewed well prior to the end of the funding period. This new redesign is expected to avoid the disruptions to programs that the “stop/start” nature of current portfolios causes. It should also reduce administrative burdens and other costs for the Commission, administrators, and program implementers. In 2014, the CPUC will work to ensure the transition of the current structure through 2015 and consider the redesigned rolling portfolio framework in Fall 2014. A decision on 2015 funding levels is anticipated in May 2014. Other decisions will follow addressing open policy issues concerning rolling portfolios.

B. Ratemaking

In addition to the traditional ratemaking cases that focus on reasonableness of rates, the Commission is in the process of designing new policies in the area of ratemaking in order to better reflect cost, shape demand, and improve low-income programs.

- **R.12-06-013** (Judges McKinney and Halligan/Commissioner Peevey), pursuant to AB 327, will examine reforms in residential electric rate structures. The proceeding is currently conducting a comprehensive examination of electric residential rate design, the tier structure in effect for residential customers, and pathways for a transition to time-variant rates. PD is expected in May 2014.

C. Demand Response

- **R.13-09-011** (ALJ Hymes/Commissioner Peevey) aims to enhance the role of demand response programs in meeting the state’s long term clean energy goals while maintaining system and local reliability. Whenever and wherever feasible, demand response programs will be able to compete with electricity generation to provide needed generation capacity, thereby contributing to system and local reliability. A January 2014 decision has approved two years of bridge funding for demand response programs (2015-2016) and allows for parties to recommend program improvements for Commission consideration. A March 2014 decision bifurcated the current Commission-regulated demand response portfolio of programs into two categories: 1) load modifying resources, which reshape or reduce the net load curve and 2) supply resources, which are integrated into the CAISO energy markets. A decision is anticipated in May 2014 making program improvements during the 2015 and 2016 bridge funding years. Given the complexity of these matters, one or more decisions are anticipated during the second half of 2014 that will address: 1) policy goals and a procurement mechanism for supply resources, 2) policy goals for increasing the load impacts and reliability of load modifying resources, and foundational issues such as cost recovery, cost allocation, and the use of backup generators in demand response.

III. Greenhouse Gas Reduction Proceedings and Policies - Reducing Environmental Consequences

A. Greenhouse Gas/Cap and Trade Programs

- **R.11-03-012** (Judges Semcer and Halligan/Commissioner Peevey) and related cases focus on the implementation of the return of greenhouse gas revenues (in the amount of \$500 million - \$ 1 billion, annually) to ratepayers generated from the auction of GHG allowances for the 2013-2020 time period. Similar policies to sell Low Carbon Fuel Standard (LCFS) credits and distribute the revenues from the sale of those credits to utility customers need to be developed in the same proceeding. A decision to finalize use of revenues for industrial customers is expected in 2014. In addition, two decisions on LCFS matters are anticipated in the second quarter of 2014.

B. Electrical Vehicles

California Executive Order B-16-2012 set a target of 1.5 million zero-emission vehicles (ZEVs) on the roads in California by 2025. The Governor’s Office has also developed a “ZEV Action Plan” for state agencies to support the ZEV target, and this Commission was identified as the lead agency on several

action items. Therefore, one of the current Commission's goals is to prepare the energy infrastructure to meet new demands stemming from electric vehicles.

- **R.13-11-007** (Judge Moosen/Commissioner Peterman) is the rulemaking that aims to develop policies that facilitate the use of electric vehicles while ensuring the reliability of electric grid. It addresses broad issues relating to the expanding use of alternative-fueled vehicles (AFV) in California with a focus on financing options, appropriate rate design and development of new policies related to AFVs. The proceeding will have two tracks. While the first track evaluates the potential and value of vehicle-grid integration, including the use of vehicle batteries for demand response or energy storage, the second track will focus on the development of new rate designs in each of the investor-owned utility service territories. A prehearing conference was held in late February 2014 and a scoping ruling will follow soon establishing a timetable for the proceeding.

C. Natural Gas and GHG Emissions

- **R. 14-03-003** (Judge Halligan/Commissioner Peterman) will establish the policy, programs, rules and tariffs necessary for natural gas corporations to comply with the California Air Resources Board's GHG Cap-and-Trade regulation.

IV. Cross-Cutting Proceedings and Policies

A. Policies concerning Privacy and Access to Data

- **R.08-12-009** (Judge Sullivan/Commissioner Peevey) has developed policies pertaining to the deployment of the Smart Grid and implementing policies to ensure that energy usage data is protected. On March 7, a decision in this proceeding proposed providing university researchers, government agencies, local government and the public with access to energy usage data when such access is consistent with state and Commission privacy policies. This should be the last substantial decision in this proceeding, which will be closed.

B. Risk-Based Decision Making

- **R.13-11-006** (Judge Wong/Commissioner Peevey) seeks to determine whether and how we should formalize rules to ensure the effective use of a risk-based decision-making framework to evaluate safety and reliability improvements presented in General Rate Case (GRC) applications, develop necessary performance metrics and evaluation tools, and modify the Rate Case Plan (RCP) documentation requirements for the investor owned energy utilities. A revised straw proposal proposing such a framework, which was based on the input of parties and the March 2014 workshops, will be made available in mid-April 2014. Parties will then have the opportunity to file comments and reply comments on the revised straw proposal. A PHC is set for April 29, 2014, with a decision expected to issue before the end of 2014.

C. Water-Energy Policy Nexus

The water-energy nexus and the potential benefits of water-energy efficiency programs have been a focus of the Commission for a number of years. Most recently, the Commission initiated **R.13-12-011**

(Judge Edmister/Commissioner Peevey) in order to develop a partnership framework between investor-owned energy utilities and the water sector to co-fund programs that reduce energy consumption by the water sector in supplying, conveying, treating, and distributing water.

Developing more robust methodologies for measuring the embedded energy savings from energy efficiency and conservation measures in the water sector, and determining the cost-effectiveness of these projects is essential for the success of policy programs. This rulemaking seeks to explore how best to develop these methodologies and measure potential benefits for energy and water ratepayers in order to consider whether and how such programs should be funded in the post-2014 portfolios and beyond as well as how the costs of such programs should be allocated among participants. A PHC was held in February 2014 and the scoping ruling will follow.