BEFORE THE PUBLIC UTILITIES COMMISSION OF

THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures, and Rules for Development of Distribution Resources Plans Pursuant to Public Utilities Code Section 769.	Rulemaking 14-08-013 (Filed August 14, 2014)

COMMENTS OF THE UTILITY REFORM NETWORK ON THE ORDER INSTITUTING RULEMAKING

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COMMENTS OF THE UTILITY REFORM NETWORK ON THE ORDER INSTITUTING RULEMAKING

Pursuant to Ordering Paragraph 4 of the Order Instituting Rulemaking (OIR), The Utility Reform Network (TURN) hereby submits these comments on the OIR. TURN supports the general scope of the OIR and believes that the Commission should use this proceeding as an opportunity to develop a robust methodology for determining locational values associated with various distributed energy resources (DERs) and developing a framework for assessing how to promote cost-effective deployments of such resources as an alternative to utility investments in traditional distribution infrastructure.

I. INTRODUCTION

TURN was actively involved in the drafting of, and negotiations over, Public Utilities Code Section 769. The purpose of this section is to ensure that distribution planning becomes a more transparent exercise that provides opportunities for distributed energy resources to provide lower-cost alternatives to traditional investments in distribution infrastructure. The statutory language directs each utility to identify optimal locations for DER deployment, develop methodologies for determining the locational value (or cost) of specific types of DERs, and propose specific mechanisms for incentivizing DER deployment in order to yield net savings to non-participating ratepayers.

While appropriately recognizing these objectives, the OIR begins its review of this new section by focusing on "the need for investment" by utilities to accommodate new DER deployments.[1] TURN is concerned that the emphasis on new utility investment is misplaced. The purpose of Section 769 is to determine

[1] OIR, page 3.

the extent to which DERs can be incorporated into distribution planning to reduce overall costs for non-participants. It would be a mistake to understand this section as an invitation for the IOUs to propose massive new expenditures for the sole purpose of maximizing the deployment of DERs.

Non-participating ratepayers benefit from DER deployment when it reduces utility spending that would otherwise been collected from all customers in rates. In order to justify incentives to DER installations under Section 769, the Commission must find that there are "net benefits" (§769(b)(4)) to non-participants, that DER resources are "cost-effective" (§769(b)(2)) and that ratepayer benefits are "maximized" (§769(c)). The Commission should take care to ensure that these statutory requirements are given top priority in the course of considering proposals made during this proceeding.

With these objectives in mind, TURN believes that the OIR should initially focus on the development of methodologies for determining the net value (or net cost) associated with the deployment of various types of DERs on specific distribution circuits. This type of methodology is critical to the entire scope of work in this proceeding and would assist the Commission's determinations in a series of related proceedings including R.14-07-002 (Net Metering) and A.12-01-008/A.12-04-020/A.14-01-007 (Green Tariff Shared Renewables). Given the complexity of developing an agreed-upon methodology, and the essential function that this methodology will serve in the proceeding, the Commission should prioritize the completion of this task in advance of the submission of Distribution Resource Plans (DRPs) by the utilities.

II. RESPONSES TO QUESTIONS

In this section, TURN offers partial responses to selected questions posed in the

OIR. To the extent that other parties offer comments on these questions, and others not addressed in these opening comments, TURN reserves the right to offer responses in the upcoming reply comments.

2) What specific elements must a DRP include to demonstrate compliance with the statutory requirements for the plan adopted in AB 327?

Each DRP submitted by an IOU must include a framework for quantifying the value of various DERs in particular distribution system locations, a process for identifying and publicizing these values, proposed mechanisms for compensating DERs based on these locational values, and a method of ensuring that any assumed savings are flowed through to non-participating ratepayers.

4) What specific values should be considered in the development of a locational value of DER calculus? What is optimal means of compensating DERs for this value?

The specific values should include any avoided system costs that would otherwise be born by the ratepayers of the same utility. These include reductions (or delays) in capital spending, lower operations and maintenance expenditures, reduced line losses, avoided purchases of energy and generation capacity, and other similar tangible costs that would be reduced through the installation and operation of a particular DER in a specific location. It would be inappropriate to attempt to quantify broader societal benefits (*i.e.* environmental externalities, health benefits) that do not directly flow back to the customers of the same utility in the form of lower revenue requirements.

The Commission should consider a variety of means for compensating DERs. Possible approaches include: fixed incentive payments to DER providers over the period of time that benefits are realized, up-front incentives for installation of DER on specific circuits, relief from standby/interconnection/fixed customer charges, or performance-based compensation for the operation of DERs during periods when the distribution circuit experiences constraints. The Commission should encourage both utilities and DER providers to suggest innovative means for compensating these resources for the value they provide to non-participating ratepayers. Utilities should consider competitive methods for awarding any compensation to minimize total costs and ensure that DERs are not oversubsidized relative to need.

11) What considerations should the Commission take into account when defining how the DRPs should be monitored over time?

The Commission should require each IOU to update its DRP on a biennial or triennial basis. Each update should include a summary of actions taken since the previous DRP submission along with estimates of net ratepayer savings achieved to date and a demonstration of how these savings have been transferred to ratepayers. The Commission should review this information as part of each successive DRP submission and monitor progress over time. Furthermore, the Commission may establish benchmarks to determine whether any goals or targets contained in any prior DRP have been achieved. Such benchmarks are critical if the IOU seeks any additional funding pursuant to §769(d).

12) What principles should the Commission consider in setting criteria to govern the review and approval of the DRPs?

The Commission should ensure that each DRP includes a clear approach to valuing the locational benefits of various DERs at particular locations throughout the distribution system, identifies mechanisms for compensating DERs for deploying in optimal locations (consistent with net ratepayer benefits), and clarifies any new expenditures that the utility intends to request in an upcoming General Rate Case to integrate DERs into the distribution system.

13) Should the DRPs include discussion of how ownership of the distribution may evolve as DERs start to provide distribution reliability services? If so, briefly discuss those areas where utility, customer and third party ownership are reasonable?

TURN does not have a pre-ordained preference regarding DER ownership. A key goal of §769 is ensuring that DER deployment is cost-effective and yields net benefits for non-participant ratepayers. It is possible that either utility or third-party ownership would satisfy this standard. That said, TURN urges the Commission to critically analyze any proposals for IOU ownership of DER in order to determine whether rate-regulated utility investments are likely to be less, or more, costly to ratepayers than third-party ownership models. In the past, TURN has analyzed certain utility investments in renewable generation that rely on federal tax credits and found that requirements relating to tax normalization (for investment tax credits) significantly raise the costs of utility ownership relative to third-party alternatives. Any analysis of ownership alternatives must therefore evaluate the net present value costs and benefits to non-participants, taking into account different financing methods and the ability of various entities to flow tax benefits through to ratepayers.

15) What, if any, further actions, should the Commission consider to comply with Section 769 and to establish policy and performance guidelines that enable electric utilities to develop and implement DRPs? Attachment 1 to this order is a complete copy of AB 327 as enacted.

As explained in Section I, TURN believes that the development of a methodology to determine the locational value of specific DERs should be the focus on near-term activities in this proceeding. Prior to the submission of the DRPs, the utilities should be provided with clear guidance regarding acceptable methods for modeling locational costs and benefits. Absent such guidance, the DRPs are likely to offer divergent approaches that make comparisons between IOUs practically impossible and may frustrate efforts to both determine "optimal" locations for DER deployment and develop incentive or contract mechanisms. The Commission may wish to resolve basic issues relating to the development of this methodology prior to the proposed January 2015 ruling providing guidance on DRPs.

Respectfully submitted,

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