

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Create a Consistent
Regulatory Framework for the Guidance, Planning
and Evaluation of Integrated Distributed Energy
Resources

Rulemaking 14-10-003
(Filed October 2, 2014)

**COMMENTS OF THE
CALIFORNIA SOLAR ENERGY INDUSTRIES ASSOCIATION
ON THE PROPOSAL FOR REGULATORY INCENTIVES**

Brad Heavner
Policy Director
California Solar Energy Industries Association
1107 9th St. #820
Sacramento, California 95814
Telephone: (415) 328-2683
Email: brad@calseia.org

May 9, 2016

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Create a Consistent
Regulatory Framework for the Guidance, Planning
and Evaluation of Integrated Distributed Energy
Resources

Rulemaking 14-10-003
(Filed October 2, 2014)

**COMMENTS OF THE
CALIFORNIA SOLAR ENERGY INDUSTRIES ASSOCIATION
ON THE PROPOSAL FOR REGULATORY INCENTIVES**

On April 4, 2016, the California Public Utilities Commission (Commission) issued “Assigned Commissioner’s Ruling Introducing a Draft Regulatory Incentives Proposal for Discussion and Comment” (Ruling) to propose a pilot project for utility incentives for the procurement of distributed energy resources (DERs). The California Solar Energy Industries Association (CALSEIA) respectfully submits these comments in response to the Ruling.

I. Introduction

The Ruling proposes a pilot program for utilities to “begin to identify opportunities for the cost-effective deployment of DERs on their systems”¹ in advance of the completion of the Locational Net Benefits Analysis (LNBA) being developed in Rulemaking 14-08-013, and for utilities to offer contracts for that deployment that include incentive payments for the utilities.

CALSEIA agrees that it would be preferable to move more quickly than the LNBA to enable DER alternatives to traditional distribution system expenditures. We are also strongly supportive of Commission efforts to reduce the utility disincentive to consider DERs in lieu of traditional utility investments and greatly appreciate the Commission’s willingness to pioneer market solutions as alternatives to the traditional planning process. However, CALSEIA does not

¹ Ruling at 11.

believe that the proposal will wholly eliminate the utility incentive to overbuild the distribution system. Changes to the distribution system planning process under consideration in the distribution resources planning proceeding continue to be critically important to state efforts to fully take advantage of cost effective DER solutions. Also, CALSEIA observes that the pilot project as proposed includes many regulatory steps that will require major amounts of staff resources. As a pilot program, the proposal appears unduly cumbersome. To increase efficiency and effectiveness, CALSEIA encourages the Commission to reduce the regulatory steps in the pilot project, increase participation from third parties in evaluating and proposing DER alternatives to distribution system expenses, and update cost-effectiveness methodology.

The Commission should consider the pilot program to be an experimental and potentially transitional approach to encouraging changes in the distribution system planning process. It is not the job of state regulators to prop up the stock price of regulated entities. Changes in forecasting methodology and changes to the distribution system decision making process may ultimately be a better approach than incentivized utility procurement. However, CALSEIA recognizes that under status quo ratemaking, the utilities do face a financial disincentive to fully embrace DERs and appreciates the Commission's efforts to address this through the proposed mechanism.

II. Responses to Questions

Question 2. Would an incentive program such as the one described in the Ruling achieve the objective of promoting the cost-effective deployment of DERs?

By attempting to eliminate the current utility bias against DER solutions, the Ruling seeks to remove the current disincentive that may prevent the utilities from considering DER solutions that avoid distribution system investments. However, if the pilot project is successful at leveling the profit motive between infrastructure spending and distributed solutions, utilities may

still prefer more centralized infrastructure. Long-term shareholder value would still be better served by fostering dependence on a more centralized electric system that will require continued spending in the coming decades. Although the proposal may make utilities whole in the short term, utilities are likely to propose a bare minimum of projects to protect their interests in the longer term.

As the paper in Appendix B of the Ruling correctly explains, “The mechanism transferring returns from the new investors to the existing investors occurs not through the accounting statement, but through the bidding up of the stock price associated with the opportunity to invest in projects with returns in excess of the cost of equity.”² Those opportunities are both short-term and long-term. It is the expectation of the potential for future profits that drives stock price, and investors evaluating which sectors of the economy are most attractive consider long-term positioning of the sector. Other things equal, utilities will favor investments that leave customers dependent on an infrastructure-heavy distribution system.

Question 5. Are there other disincentives to the deployment of DERs that this proposal does not address that should be considered at the same time?

For purposes of this pilot program and other evaluations of DER, the Commission must make cost-effective evaluations more inclusive of the broad range of benefits of distributed solutions.

The Ruling proposes incentives for utilities to deploy DERs that cost less than the costs to customers in absence of the DERs. In making this cost-effectiveness determination, utilities would include avoided energy procurement, capacity, ancillary services, and greenhouse gas emissions costs. This omits important benefits of DERs and assumes that the true cost to

² Steve Kihm, Ron Lehr, Sonia Aggarwal, and Edward Burgess, “You Get What You Pay For: Moving Toward Value in Utility Compensation,” June 2015 at 12.

Californians of greenhouse gas emissions is effectively incorporated into utility costs of compliance with the Cap and Trade program.

The Cap and Trade program's existence beyond 2020 is currently subject to legal challenge, and even if it survives that challenge it remains to be seen whether allowance costs will accurately reflect the true cost of emissions. One of the biggest reasons for encouraging DERs is to avoid the worst impacts of climate change. Failing to fully account for this benefit would miss the point underlying the entire effort. In the Cap and Trade program to date, allowance prices have been based on a 2020 target that has not involved much belt tightening. Allowance prices have been far lower than estimates of actual costs of carbon pollution. A better proxy is the carbon emission reduction benefit of \$36 per ton of CO₂eq, based on the findings of the Interagency Working Group on Social Costs of Carbon led by U.S. EPA.³ DER cost-effectiveness calculations should use this number and update it as it is updated by the federal working group.

In addition to greenhouse gas emission reductions, an accurate cost-benefit determination would need to include reductions of other air pollutants, avoided water use, economic development, improved reliability, and resiliency. The Commission must take the time to assign values to each of these benefits.

Question 6. Is the suggested process for identifying and approving DER projects that would generate an incentive reasonable and appropriate? How could the process be improved?

A. Allow Third Party Project Origination

The pilot program should take further steps away from a planning process that is driven solely by utilities and toward a system that fosters competition and empowers customers to take

³ Interagency Working Group on Social Costs of Carbon, "Technical Update of the Social Costs of Carbon for Regulatory Impact Analysis Under Executive Order 12866," May 2013.

action. The Ruling envisions that utilities would be the only parties to identify opportunities for deployment of DERs in lieu of infrastructure spending. For the reasons stated in response to Question 2, this is likely to result in minimal activity. Instead, the pilot program should welcome other parties to identify DER alternatives to distribution system spending. To enable this activity, the utilities should be required to identify the spending they are considering throughout their territories and the system constraints that the spending is intended to address. Market participants would then have the opportunity to propose DER solutions that can address those system constraints.

Ultimately, utilities should be required to adopt non-wires solutions to local capacity challenges when they can provide the same service at equal or lower cost. Third parties should have an opportunity to propose those solutions. The distribution system needs analysis and decision making process must be more transparent for this to happen.

B. Streamline the Process

Procurement of DERs under the proposal would involve a labor-intensive process. Steps include:

- Development of the appropriate incentive level and mechanism.
- A proposal from the utility for specific resources and locations.
- Consultation with a group of independent experts.
- An advice letter containing the preferred resource, location, and details of the RFO.
- A confidential cost estimate.
- A public workshop.
- Comments on the advice letter and Commission approval.

- Publicity of the RFO and selection of projects.
- An application proposing contracts, with comments and Commission approval.
- Management of a balancing account.

A public workshop is not necessary for every individual DER opportunity. Comments on the advice letter should be sufficient to ask for clarification and recommend changes. Also, since the details of the RFO will have been made clear in the advice letter, it is not necessary to submit the proposed contract as an application. If every project addressing a distribution system constraint were the subject of an individual application, the regulatory process would obviously be even more complicated and slow than it already is. Distribution system constraints addressed with DER solutions should not be elevated to a far more elaborate process than those addressed by traditional projects.

Ultimately, tariffs will likely be a more efficient way to support the deployment of DER solutions to distribution system constraints than RFOs. If Commission staff is absorbed by evaluating comments on pilot projects, it will further delay implementation of tariffs specific to optimal locations, which is the approach that is more likely to deliver concrete results at the scale that is needed to avoid locking in massive spending in outmoded infrastructure.

C. Provide Technical Support to the Advisory Group

The makeup and capabilities of the Distribution Procurement Review Group (DPRG) will be important to the success of the pilot program to help the group vet proposals and evaluate bids. The Commission should consider ways in which the technical capacity of the DPRG can be augmented, perhaps by contracting with a technical consultant. Given the long-term incentive the utilities will still face that favors traditional utility solutions, this technical resource will be important to help ensure that the utilities are putting forth a meaningful set of system needs to be

addressed via DERs, as well as to assist in the evaluation of different DER solutions that will be submitted in response to the RFOs.

Question 9. What would be the appropriate role of the IOUs themselves in the deployment of cost-effective DERs? Should direct IOU participation in DER deployment be encouraged, foreclosed, or allowed with certain caveats?

While the utilities will still have a role to play in terms of identifying system constraints and in contracting with and interconnecting DER projects, CALSEIA does not support a broader role in which the utilities themselves deploy DERs to address their system needs. This would be at odds with the primary purpose of the proposed mechanism, which is to mitigate the vested interest the utilities currently have in what solution gets selected to address a system need. If the utilities themselves own and deploy DERs, there is real risk they would engage in activities that advantage their resources over those of non-utility providers. Additionally, given the number of DER providers that currently exist, there does not appear to be a need for utility-owned DER solutions.

III. Conclusion

CALSEIA appreciates the Commission's forward-thinking ruling and urges consideration of the recommendations above to help ensure the proposed pilot program is impactful.

Respectfully submitted this May 9, 2016 at Sacramento, California,

By: /s/ Brad Heavner
Brad Heavner

Brad Heavner
Policy Director
California Solar Energy Industries Association
1107 9th St. #820
Sacramento, California 95814
Telephone: (415) 328-2683
Email: brad@calseia.org