



April 15, 2019

Sent by Electronic Mail

Commission President Michael Picker
Commissioner Liane M. Randolph
Commissioner Martha Guzman Aceves
Commissioner Clifford Rechtschaffen
Commissioner Genevieve Shiroma
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Pending Proposed Decision in R.14-10-003 (IDER)

Dear Commissioners:

Pursuant to California Public Utilities Commission's Rules of Practice and Procedure, Rule 8.2(c)(3)(A), Advanced Energy Economy ("AEE"), the California Efficiency + Demand Management Center (the "Council"), Center for Energy Efficiency and Renewable Technologies ("CEERT"), Natural Resources Defense Council ("NRDC") (collectively the "Joint Parties") submit this written ex parte communication in Rulemaking (R.) 14-10-003 on the Proposed Distributed Energy Resources Cost-Effectiveness Decision Adopting Cost-Effectiveness Analysis Framework Policies for all Distributed Energy Resources (the "Proposed DER Cost-Effectiveness Decision"). The Joint Parties are all parties to this proceeding and a copy of this letter has been served on the Service List for R.14-10-003 pursuant to Rules of Practice and Procedure, Rule 8.2(c)(3)(A).

We write to express our serious concern that California's ability to attain its energy policy objectives would be significantly impaired by the cost-effectiveness approach set forth by the Proposed DER Cost-Effectiveness Decision. At a time that energy rates are forecasted to increase, and utility costs of capital are elevated, a cost-effectiveness approach must encourage private clean energy investment, recognize value in the social and equity objectives sought by the Commission and the state, and build flexible demand capacity through distributed energy resources ("DERs").

Unfortunately, the primary metric proposed, the Total Resource Cost ("TRC") test, as it has been interpreted and applied in California, would have the opposite effect. It treats private investment equivalently to ratepayer spending, assigns no benefits to social policy objectives, and is fundamentally incompatible with a number of California's clean energy and affordability objectives. The approach outlined in the Proposed DER Cost-Effectiveness Decision would needlessly increase both the costs and the difficulty of attaining a least cost, reliable, equitable and climate-protective energy system—and would inhibit acquisition of the increased quantity and diversity of clean energy resources California will need to satisfy SB 100 and Executive Order B-55-18, both of which took effect after the record was completed. Resource valuation using metrics that are misaligned with important policy requirements results in underinvestment in essential long-term priorities, and triggers overinvestment in other resources that, in total, are more expensive to ratepayers. Once the wrong investments in our energy system have been made, policy goals may become unreachable for both economic and practical reasons. A transparent process to align metrics with objectives is required for success, and the work should begin immediately.

We support the Commission's intent to develop a Common Resource Valuation Method ("CRVM"), a tool intended to keep resource procurement of all types focused on the Commission's goals. The Proposed DER Cost-Effectiveness Decision would unfortunately frustrate that intent, entrenching an approach that cannot succeed as proposed, rather than progressing towards metrics capable of realizing the Commission's vision. Ultimately, the question that must be asked through the CRVM, and under any other metrics applied to DERs, is not whether a resource is competitive with conventional resources plus a greenhouse gas adder, but rather how the resource compares with other options that could be used to achieve an energy system satisfying the Commission's policies, and lay the foundation for achieving SB 100 and EO B-55-18 targets. We cannot hope to select the resources needed to create that energy system if the valuation metrics are not designed, from the outset, to achieve the Commission's and the state's objectives.

The proposed use of the modified TRC as the primary test for DERs, particularly combined with the deferral of the Societal Cost Test ("SCT"), is simply inconsistent with the economic, environmental and equity policy objectives of the state and the Commission. The many factual, legal and technical errors in Proposed DER Cost-Effectiveness Decision are material, and include:

- Omission of the comparative value of the resource to achieving the Commission's goals for our future energy system, including implementation of SB 100 and EO B-55-18;
- Counting private capital investment in DERs against their cost-effectiveness, creating a perverse disincentive for private investment that is particularly harmful as the utility cost of capital has increased;
- Lack of consideration of non-energy benefits relevant to the Commission's and California's policy goals;
- Undue reliance on the TRC, which formalizes priorities inconsistent with California's clean energy and affordability vision;

- Omission of significant cost savings resulting from reduced energy use subsidies; and
- Inconsistency with the Commission's stated objective of developing a CRVM that can optimize across all resource choices, which would offer the best chance of discerning affordable paths to success for California's energy policy goals.

We are confident the Commission can usher in an energy system that fully meets its policy goals and those of the state, but we are equally confident that the approach contained in the Proposed DER Cost-Effectiveness Decision would be the wrong road, taking us further from those goals. In this challenging time for California's energy sector, we cannot afford to be making inefficient investments- or to inhibit private investment in our energy future. We therefore ask that the Commission take the following actions:

- Commence a series of focused workshops on metrics specifically designed to select the resources best suited to attain California's energy sector goals;
- On an interim basis, while the workshops are underway, modify the TRC, the Program Administrator Cost ("PAC") test, and the Ratepayer Impact Measure test with the Greenhouse Gas Adder values adopted in D.18-02-018; and
- Until the new metrics developed through the workshops are implemented, apply the modified TRC and the PAC, on a weighted basis, as well as the SCT to evaluate DERs.

The Commission has outlined an ambitious agenda for California's energy future, which we fully support. By taking these actions, the Commission can avoid unnecessary and unwelcome barriers, and make confident progress towards realizing its vision.

Sincerely,



Coley Girouard, Principal
Advanced Energy Economy



Arthur Haubenstock, Executive Director
California Efficiency + Demand Management Council



V. John White, Executive Director
Center for Energy Efficiency and Renewable Technologies



Mohit Chhabra, Senior Scientist
Natural Resources Defense Council

cc: R.14-10-003 (IDER) Service List
David Peck (Energy Advisor to Commissioner Picker)
Rachel Peterson (Chief of Staff to Commissioner Randolph)
Adenike Adeyeye (Chief of Staff to Commissioner Guzman Aceves)
Sean Simon (Chief of Staff to Commissioner Rechtschaffen)
Leuwam Tesfai (Chief of Staff to Commissioner Shiroma)