

July 8, 2022

Joy Morgenstern, Ph.D.
Senior Regulatory Analyst, Energy Division
California Public Utilities Commission

Via Email

Re: Draft Avoided Cost Calculator Major Update

Dear Dr. Morgenstern,

The California Efficiency + Demand Management Council (Council) writes in response to the California Public Utilities Commission (CPUC) Energy Division's (ED) 2022 Draft Avoided Cost Calculator (ACC) Major Update. We appreciate the opportunity to provide our feedback.

The Council is a non-utility trade association representing more than 70 companies that design, implement, maintain and evaluate energy efficiency and demand response and employ thousands of people who play an important role in California's economy. Recent estimates put that number at more than 300,000 Californians that are employed in the industry that we represent.

The Council observes Distributed Energy Resources' (DERs - including energy efficiency (EE) and demand response (DR)) demonstrated accomplishments and future potential in advancing grid resilience, energy reliability, and the State's carbon (CO₂) emissions reduction goals. DR and EE are cost-effective demand- side resources that play a critical role in managing the state's grid, and are available in greater quantities than currently being deployed

The ACC is an important factor in better reflecting the economic opportunities and benefits of DERs when considering the cost-effectiveness of resource investments. As stated in E3's draft ACC Update for the CPUC¹: "hourly avoided costs are used... to determine program benefits. Those benefits are then compared to program costs to determine cost-effectiveness." An ACC that accurately reflects the holistic value and cost-effectiveness of demand side resources is a significant tool in addressing the challenges posed by the climate crisis and advancing the State's CO₂ emissions reductions targets.

In May 2021, the Council filed comments stating our concerns with the 2021 proposed revisions to the ACC. In particular, the Council noted the proposed ACC revisions would substantially reduce the avoided cost of capacity and, by extension, the cost-effectiveness of all behind-the-meter DERs.

The Council is generally pleased that the 2022 draft ACC Update appears to more accurately reflect the holistic value and cost-effectiveness of DERs. The Draft ACC accomplishes this by increasing:

- Near-term capacity avoided costs,
- Forecasted midday energy prices,
- Short-term distribution avoided costs (for PG&E and SDG&E), and
- Transmission avoided costs (for PG&E).

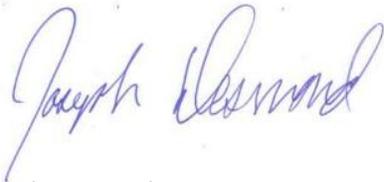
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<https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/demand-side-management/acc-models-latest-version/2022-acc-documentation-v1a.pdf>

Though the increased avoided costs noted above are significant improvements to the draft ACC Update, the Council is concerned with the modeled natural gas prices in the draft ACC Update. Natural gas prices are a significant factor when considering energy prices and broader resource investments. Effectively, the ACC natural gas price assumptions are 24% lower than the futures market prices over the next 10 years, and 51% lower over the next two years.^{2 3 4} This disparity does not accurately reflect the true costs of natural gas in the draft ACC Update, likely reducing the increase in avoided costs.

The Council remains concerned with the Draft ACC's use of the no-new DER scenario. This scenario appears to be in direct conflict with the trajectory of clean energy markets and the State's pursuit of CO₂ emissions reductions targets. The Council is uncertain about the broader implications of the CPUC using this scenario as it is our expectation that California will observe a significant increase in the use of DERs to contribute to our collective fight against climate change. We hope to see an ACC reference scenario that better represents this expectation.

Sincerely,



Joseph Desmond
Executive Director
California Efficiency + Demand Management Council

² <https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm>

³ <https://www.eia.gov/dnav/ng/hist/n3050ca3m.htm>

⁴ <https://www.cmegroup.com/markets/energy/natural-gas/natural-gas.quotes.html>