BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates.	Rulemaking 22-07-005 (Filed July 14, 2022)

OPENING COMMENTS OF
THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON ASSIGNED COMMISSIONER'S PHASE 1 SCOPING MEMO AND RULING

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I. INTRODUCTION

The California Efficiency + Demand Management Council ("the Council") respectfully submits these Opening Comments on the Assigned Commissioner's Phase 1 Scoping Memo and Ruling ("Phase 1 Scoping Memo"), issued in this proceeding on November 2, 2022. These Opening Comments are timely filed and served pursuant to the Commission's Rules of Practice and Procedure and the Phase 1 Scoping Memo. The Attachment to the Phase 1 Scoping Memo is the "CPUC Rate Design & Demand Flexibility Principles Staff Proposal" ("Staff Proposal").

II. BACKGROUND

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.[1] Our member companies employ many thousands of Californians throughout the state. They include energy efficiency ("EE"), demand response ("DR"), and distributed energy resources ("DER") service providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and energy efficient product manufacturers. The Council's mission is to support appropriate EE, DR, and DER policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructure, and environmental improvement.

[1] Additional information about the Council, including the organization's current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at http://www.cedmc.org. The views expressed by the Council are not necessarily those of its individual members.

III. THE COUNCIL RESPONSES TO PHASE 1 SCOPING MEMO QUESTIONS

1. Should the Commission adopt the staff proposal for modifying the electric rate design principles applicable to all electric rates of the large investor-owned electric utilities (*see* Attachment)? Why or why not?

The Council appreciates the Commission's interest and stated intent in updating the Electric Rate Design Principles ("ERDPs") to develop "...a new set of guidelines that better fits today's fast-changing electrical grid" as well as to "…align with the current state goals."[2] Given the overarching purpose of this rulemaking is to design rates to effect several key policy goals, now is an appropriate time to revisit the associated guiding principles to ensure they align with these goals. The Council urges the Commission to consider the Council's recommendations and feedback as it moves forward with this effort.

As an initial point, some proposed revised principles appear to conflict with one another. For example, ERDPs #1, #2, and #3 appear to be contradictory in nature. ERDP #1 rightly seeks to protect at-risk customers from bill impacts that would prevent them from meeting their basic needs.[3] ERDP #2 would require that rates be based on marginal cost while not having a negative Contribution to Margin.[4] Similarly, ERDP #3 requires that rates be based on cost causation principles and avoid cost shifting.[5] The contradiction of ERDP #1 with ERDP #2 and #3 is in the risk that conformance with ERDP #1 could potentially shift costs from disadvantaged customers (which would violate ERDP #3) to such a degree that their rates are lower than their marginal cost (which would violate ERDP #2).

During the Commission's November 17 Workshop, the Council asked: "How does the Commission view these contradictions and envision reconciling these contradictions?" The Council's understanding of the Commission's response to this question was an acknowledgment that some contradictions exist in their EDRPs, and that the Commission must make "policy calls" in those circumstances. The Council understands the difficulty in balancing high-level principles to guide a broad swath of decisions while remaining focused enough to preserve meaning. However, the Council is concerned that retaining conflicts in their current nature could undermine the overall impact and relevance of all ERDPs. To mitigate those contradictions, the

[2] Staff Proposal, at p. 2.
[3] *Id*.
[4] *Id*.
[5] *Id*., at pp. 2-3.

Council puts forward the recommendation made during the November 17 Workshop to tier the principles based on priority. This will provide a clearer hierarchy of principles while providing the Commission with the needed flexibility to address high-priority policy issues.

Notwithstanding this issue, the Council provides feedback below on the proposed revised ERDPs.

ERDP #1: All residential customers (including low-income and medical baseline) should have access to enough electricity to ensure their essential needs (health, safety, and full participation in society) are met at an affordable cost.

As previously stated, the Council understands the need for principles to remain high-level yet detailed enough to convey meaning and policy direction. The Council is concerned the phrase "full participation in society" does not strike that balance. The phrase is overly vague to the point its meaning and intent are unclear. The Council suggests the Commission clarify ERDP #1 by removing the text: "(health, safety, and full participation in society)" in order to avoid confusion and unnecessary inconsistencies in interpretation and application. The Council believes "health" and "safety" are considered "essential needs" and thus the impact of those terms would be preserved in ERDP #1. The Commission should revise ERDP #1 to read:

> "All residential customers (including low-income and medical baseline) should have access to enough electricity to ensure their essential needs are met at an affordable cost."

In addition, the Council firmly believes that the energy transition must be equitable, among other factors, in order to succeed so that marginalized residential customers are not left in a worse condition than they are today. However, small businesses that are located in disadvantaged communities also face a disproportionate risk of financial impacts leading to lost revenue, layoffs, and even potential closure if their energy costs rise significantly in the wake of implementing new rate designs. These businesses play an important role across California's communities and should be given consideration in this principle.

ERDP #2: Rates should be based on marginal cost and should not have a negative Contribution to Margin.

Notwithstanding the apparent conflict between this ERDP and ERDP #1 discussed above, the Council generally supports this principle. If the Commission's intent is to allow for exceptions to ERDP #2 when it meets certain overriding policy goals, the Commission should revise this principle to read:

> "<u>Unless necessary to meet critical policy goals,</u> rates should be based on marginal cost and should not have a negative Contribution to Margin."

ERDP #3: Rates should be based on cost-causation principles and avoid cost shifts.

Notwithstanding the apparent conflict between this ERDP and ERDP #1 discussed above, the Council generally supports this principle. In most cases, customers should receive a clear price signal that reflects the cost they, or at least their customer class, imposes on the grid.

ERDP #4: Rates should encourage greenhouse gas emissions reduction, beneficial electrification, and cost-effective energy efficiency.

The Council is concerned by the removal of the word "conservation" from ERDP #4. Conservation will continue to apply downward pressure on electric rates by reducing customer consumption, mitigating the need for incremental resource and infrastructure investments. Even if the Commission interprets conservation as being implicitly included in the proposed modifications, the Council suggests the Commission reinsert the term in order to highlight the important role conservation continues to play in the energy transition.

ERDP #5: Rates should optimize use of existing grid infrastructure and limit long-term infrastructure costs.

The Council generally supports this proposed ERDP modification with one clarifying edit. Planning for and investing in new or additional infrastructure requires significant funding and resources, and often requires extended periods of time to construct. Rates, therefore, should seek to avoid unnecessary investments meant to address the highest loads during limited periods. The Council suggests replacing the term "limit" with "minimize" which more accurately characterizes the relationship between rates, infrastructure, and infrastructure costs. With the Council's suggested edit, the revised ERDP #5 should read:

> "Rates should optimize use of existing grid infrastructure and <u>minimize</u> long-term infrastructure costs."

ERDP #6: Customers should have options to manage their bills.

The Council is concerned by the removal of the words "stable" and "understandable" from this ERDP. There may be some logic behind removing the term "stable" if the Commission defines "stable" as being generally consistent or flat throughout the day, especially considering the potential for modern rates to be more variable over the course of a day. However, if the Commission intends for "stable" to imply rate structures that, once adopted, are unchanged for extended periods of time, the Commission should retain this quality in this principle. Rate certainty is critical to customers to ensure a degree of predictability to their bills and to support customer investments in technologies meant to be used in conjunction with rates. The Council therefore urges the Commission to insert the term "durable" if the term "stable" continues to risk posing conflicting messages.

Similarly, customers must be able to understand their rates. If they cannot, the Council fears that they will be unengaged and ambivalent with regard to their energy consumption which is not conducive to promoting customer interest in the various options available to them to manage their bills. This is likely particularly true as rates are likely to become more complex (if for no other reason than there being a greater number of options) and require greater customer engagement. The Commission should restore "understandable" into ERDP #6.

The Council recommends the following modifications to the proposed revised ERDP #6 to reflect these two points:

> "Rates should be durable and understandable, and customers should have options to manage their bills."

ERDP #7: Rates should be technology-neutral and avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals.

The Council generally supports this proposed ERDP modification. Unnecessarily favoring any specific enabling technology will immediately limit the appeal of the rate to other technologies, thus limiting its uptake and, as a consequence, the benefits it can deliver.

ERDP #8: Rate incentives should be explicit and transparent.

The Council agrees with the Commission's decision to propose no changes to ERDP #8. However, if the Commission wants to retain the principle that rates be "durable" and "understandable" while preserving its proposed ERDP #6, it could insert them into this ERDP to create the following revised ERDP #8:

> "Rate incentives should be explicit, transparent, understandable, and durable."

ERDP #9: Rates should encourage customer behavior that improves system reliability.

The Council generally supports this proposed ERDP modification. It is important that improving system reliability be incorporated as one of the goals of rate design.

ERDP #10: Transitions to new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates and minimizes the bill impacts associated with such transitions.

The Council generally supports this proposed ERDP modification. Customer education on the potential bill impacts of new rates as well as the opportunities for how to benefit from it are critical.

2. **Should the Commission adopt the staff proposal for new demand flexibility design principles applicable to all demand flexibility rates of large investor-owned electric utilities (*see* Attachment)? Why or why not?**

The Council generally supports all of the Commission's proposed demand flexibility design principles ("DFDPs").[6] The DFDPs address most of the key elements regarding dynamic rates but are silent on two others: the role of third parties in supporting customers to manage their bills and the ease by which third parties, such as aggregators and program evaluators, can access customer data to enable such services. The role of third parties in implementing dynamic rates, including their ability to access customer data, must be considered in the DFDPs. Otherwise, the Council is concerned that future dynamic rates programs may ignore the critical contributions that third parties can make to their success in terms of customer participation and program assessment.

3. **How should the Commission support the implementation of the amendments to the California Energy Commission's Load Management Standards?**

The California Energy Commission's ("CEC") load management standards ("LMS") are complementary to the Commission's rulemaking efforts under R.22-07-005. If the LMS amendments are implemented appropriately, they will prove highly valuable in helping advance California's modern grid. It is therefore important that the Commission support the CEC's amendments to the LMS, otherwise the CEC will be unable and ineffective in their implementation.

   a. **When and how should the large investor-owned utilities be required to file applications for approval of compliant rates?**

The Council currently has no comments on this question.

[6] Staff Proposal, at pp. 5-6.

b. Are there any existing investor-owned utility tariffs or pilot rates that comply with the requirements for dynamic, marginal cost-based rate?

To the Council's knowledge, Southern California Edison ("SCE"), Valley Clean Energy ("VCE"), Pacific Gas & Electric ("PG&E"), and San Diego Gas & Electric ("SDG&E") are either implementing dynamic rate pilots or are in the process of seeking their approval by the Commission. The SCE and VCE pilots are currently under way so they could potentially be eligible for compliance. The PG&E and SDG&E pilots have not yet received Commission approval so it is too soon to tell if either or both would meet the requirements for dynamic, marginal cost-based rates.

4. Should the Commission expand any of the existing dynamic rate pilots as a near-term solution to benefit system reliability?

The Commission is correct to ask this question because it should be seeking opportunities to accelerate the timeline to design and deploy full-scale dynamic rate tariffs. In fact, the Commission should set a goal of a broad-based dynamic rate and program launch within 24 months. Expediency is appropriate given the volume of relevant trials and literature that has already been created. Rather than creating duplicative systems and repeating previous studies, the Commission and the CEC should coordinate on a single universal price portal and set of Application Programming Interfaces for price and greenhouse gas ("GHG") signals. The portal should also provide GHG transparency to allow consumers to optimize their usage based on emissions intensity in addition to price, furthering the objective of reducing California's GHG emissions.

At this time, it may be premature to designate any of the existing dynamic rate pilots for expansion due to a lack of information on their progress, lessons learned, etc. With this said, the SCE Dynamic Rate Pilot may serve as a good starting point (with further development required) to develop a program that can be deployed by all interested LSEs for bundled and unbundled service customers that is compatible with all enabling technologies and is open to all aggregators and automation service providers.

If the Commission is intent on considering this question further, the Council recommends it schedule a workshop for all deployed and pending dynamic rate pilots to be presented, with parties submitting comments afterward on the viability of each one for potential expansion as well as potential improvements.

a. If so, which pilots should the Commission expand and why?

Please see the Council's response immediately above.

b. How should any of the expanded pilots be modified (*e.g.*, duration, size, eligibility criteria, reporting/evaluation requirements, rate design, cost recovery)?

This question should be addressed more comprehensively in the future, but the Council recommends that any dynamic rate program be open to all customer classes, as well as all aggregators, automation service providers, and rate platform providers. In addition, all enabling technologies should be eligible for use in an expanded pilot.

5. Beyond the six-element California Flexible Unified Signal for Energy (CalFUSE) policy roadmap proposed by Energy Division staff, what alternate proposals for hourly, marginal cost-based rates should the Commission consider to enable widespread adoption of demand flexibility and support the implementation of the amendments to the California Energy Commission's Load Management Standards?

The six elements proposed by Energy Division staff under the CalFUSE policy roadmap are generally comprehensive and thoughtful. The elements outline a policy that should allow for customer choice in how they engage with any new flexible rates.

V. CONCLUSION

The Council appreciates the opportunity to submit these Opening Comments.

Dated: December 2, 2022

Respectfully submitted,

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