

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 PROPOSED DECISION ADOPTING ELECTRIC RATE DESIGN PRINCIPLES AND
DEMAND FLEXIBILITY DESIGN PRINCIPLES**

Dated: April 6, 2023

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I. INTRODUCTION

The California Efficiency + Demand Management Council¹ (“The Council”) respectfully submits these Opening Comments on the Proposed Decision Adopting Electric Rate Design Principles and Demand Flexibility Design Principles (“Proposed Decision” or “PD”), mailed in R.22-07-005 (“Demand Flexibility”) on March 17, 2023. These Opening Comments are timely filed and served pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure and the instructions accompanying the Proposed Decision.

II. BACKGROUND

The Council is a statewide trade association of non-utility businesses and organizations that provide energy efficiency (“EE”), demand response (“DR”), distributed energy resources (“DER”) and data analytics services and products in California. Our member companies and organizations employ many thousands of Californians throughout the state. They include EE, DR, DER, and grid services technology providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, and workforce training.

III. SUMMARY

The Council appreciates the interest in revising and updating the Commission’s Electric Rate Design Principles (“ERDPs”) and embracing energy innovation, in part, by establishing new Demand Flexibility Design Principles (“DFDPs”). Both sets of design principles will play a

¹ The views expressed by the California Efficiency + Demand Management Council are not necessarily those of its individual members.

role in guiding decisions that are vital to lower energy bills, cleaner energy, reliable power, and equitable access to clean energy technologies across the state.

The Council generally supports the following ERDPs as proposed in the Proposed Ordering Paragraphs of the Proposed Decision:

(a) All residential customers (including low-income customers and those who receive a medical baseline or discount) should have access to enough electricity to ensure that their essential needs are met at an affordable cost.²

The Council appreciates the Proposed Decision’s proposed revision to this ERDP which removes the language “full participation in society” which was undefined and appeared more detailed than necessary for a principle level document. The Proposed Decision’s revision captures the appropriate level of specificity for a set of principles. The Council also acknowledges and appreciates the attention to and interest in addressing challenges to advancing energy equity particularly associated with the state’s energy transition.

(c) Rates should be based on cost causation.³

The Council remains generally supportive of this ERDP taking into consideration the Proposed Decision incorporated the concept of avoiding unintended cost shifts into another ERDP. However, the Commission must recognize that historic disinvestment has occurred in disadvantaged communities, leading to inequitable access to DERs.⁴

(e) Rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner.⁵

The Council supports the ERDP’s attention towards improving system reliability in an economically efficient manner.

² Proposed Decision, at p. 35 (Ordering Paragraph Number 1).

³ *Id.*

⁴ See “Inequitable Access to Distributed Energy Resources due to Grid Infrastructure Limits in California” (2021) by Anna M. Brockway, Jennifer Conde, and Duncan Callaway which can be found here: <https://escholarship.org/uc/item/6pc2k2tv>

⁵ Proposed Decision, at p. 36 (Ordering Paragraph Number 1)

(f) Rates should encourage customer behaviors that optimize the use of existing grid infrastructure to reduce long-term electric system costs.⁶

The Council supports this ERDP’s incorporation of the term “reduce” which is effectively synonymous with our recommendation in our Opening Comments⁷ to the Assigned Commissioner’s Phase 1 Scoping Memo to incorporate the term “minimize”. The Proposed Decision’s proposed revision to this ERDP accurately characterizes the relationship between rates, infrastructure, and infrastructure costs. Additionally, electric rates should not discourage disadvantaged and vulnerable communities to use electrical equipment that satisfies basic human living standards such as heating and cooling loads, and medically essential end uses.⁸

(h) Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals.⁹

The Council supports and appreciates the Proposed Decision’s inclusion to enable principle-level exceptions for advancing policy goals into ERDP (h). The Council acknowledges the Proposed Decision’s revision to this ERDP helps address our concerns regarding potential contradictions between ERDPs. The Council has no further recommendations to this ERDP.

(i) Rate design should not be technology-specific and should avoid creating unintended cost-shifts.¹⁰

The Council supports the Proposed Decision’s interest in avoiding unnecessarily favoring any specific enabling technology and generally avoiding unintended cost-shifts that are not aligned with the State, and local goals and mandates.

⁶ Proposed Decision, at p. 36 (Ordering Paragraph Number 1)

⁷ Opening Comments of the Council on the Phase 1 Scoping Memo, submitted on December 2, 2022, at p. 4.

⁸ California Essential Use Study – Task 3 Survey Findings Summary Memo which can be found here:

<https://pda.energydataweb.com/api/view/2718/CA%20EUS%20Survey%20Findings%20Memo%20-%20Draft%2010-04-22%20Clean.docx>

⁹ Proposed Decision, at p. 36 (Ordering Paragraph Number 1)

¹⁰ *Id.*

*(j) Transitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions.*¹¹

As the state continues to transform how Californians interact with their energy, customer education on rates and potential bill impacts is critical to advancing the state’s clean energy and climate policy goals. This includes variability in commodity markets and unprecedented rate escalation forecasts across all energy supply resources conducted by the California Energy Commission (“CEC”).

The Council generally does not take a position on ERDP (b) but acknowledges the importance of considering the language in ERDP (i) that states rate design should “avoid creating unintended cost-shifts” in coordination with ERDP (b).

The Council suggests the Decision revise ERDP (d) and (g) as proposed in the Proposed Ordering Paragraphs in Appendix A and offers suggested revisions and justifications for those revisions in Sections IV of these comments.

The Council generally supports the DFDPs as proposed in the Proposed Ordering Paragraphs of the Proposed Decision and suggests emphasizing “avoided emissions” in DFDP (c) if applicable.

IV. THE COUNCIL’S RECOMMENDED MODIFICATIONS TO EDRP (d)

EDRP (d) currently states that “Rates should encourage economically efficient (i) use of energy, (ii) reduction of GHG emissions, and (iii) electrification.”¹² The Council appreciates the Proposed Decision’s recognition of the “continued importance of conserving energy during high cost and high-GHG emissions hours.”¹³ Unfortunately, the Proposed Decision proposes striking “conservation” from ERDP (d) as its stated focus has shifted “to reducing usage during *certain* hours...” [emphasis added].¹⁴ The Council acknowledges that advancing certain state goals, such as building and transportation electrification, will lead to increases in electricity consumption. However, as the Proposed Decision alludes to, conservation still serves an important benefit to the state, especially during high cost and high-GHG emissions hours.

¹¹ Proposed Decision, at p. 36 (Ordering Paragraph Number 1)

¹² *Id.*, at p. 35 (Ordering Paragraph Number 1)

¹³ *Id.*, at p. 14.

¹⁴ *Id.*

Furthermore, in a high distributed energy resource scenario, conservation plays a significant role in amplifying the benefits of storage systems (including battery energy storage systems) and their ability to store additional power and dispatch as our grid and resilience needs evolve.

Advancing conservation efforts, as appropriate, provides benefits to the grid and to customers. Conservation is an important tool to effectively and affordably advance the state's clean energy and climate goals. Conservation will continue to apply downward pressure on electric rates by reducing customer consumption, mitigating the need for incremental resource and infrastructure investments. The Council therefore urges the Decision to revise ERDP (d) to include "conservation". The ERDP's preceding language emphasizes "economically efficient" which should resolve the Proposed Decision's stated concerns regarding conservation and its role in an evolving energy landscape. Please find the Council's suggested revision to ERDP (d) in Appendix A.

V. THE COUNCIL'S RECOMMENDED MODIFICATIONS TO EDRP (g)

EDRP (g) currently states: "Customers should be able to understand their rates and rate incentives and should have options to manage their bills."¹⁵ The Council appreciates the Proposed Decision's proposed inclusion of "understand" as an important factor in the ERDP's definition as well as the state's ability to leverage flexible or variable rates as a tool in reducing greenhouse gas emissions and advancing clean energy policies. However, the Council continues to assert that rate certainty is critical to customers to ensure a degree of predictability to their bills.

The Council understands the Proposed Decision's proposal to remove "stable" from the ERDP as "dynamic rates may not be characterized as "stable" since these rates are designed to send varying price signals to encourage customers to modify their behavior."¹⁶ Inherently, variable or flexible rates will add complexity for customers amidst already, relatively, complex rate structures. However, the Council suggests the Final Decision consider incorporating the benefits of rate consistency or durability into this ERDP with the intent of supporting customer understanding of rates by designing rates that are effective over a sufficient period of time. This consistency also benefits regulatory decision-making for stability in grid infrastructure capital

¹⁵ Proposed Decision, at p. 36 (Ordering Paragraph Number 1).

¹⁶ *Id.*, at p. 19.

and operational opportunities, which are necessary to plan for a decarbonized California by 2045.

VI. THE COUNCIL’S RECOMMENDED MODIFICATIONS TO DFDP (c)

The Council generally supports all DFDPs as proposed in the Proposed Ordering Paragraph of the Proposed Decision with one question regarding DFDP (c) which states: “Dynamic prices should, to the extent feasible, accurately incorporate the marginal costs of energy, generation capacity, distribution capacity, and transmission capacity based on grid conditions.”¹⁷ The Council requests clarification as to whether the Proposed Decision considers avoided emissions as a component of the cost of energy. If the Proposed Decision’s DFDP does not consider avoided emissions under the costs of energy, the Council recommends the Decision revise DFDP (c) to incorporate “avoided emissions” as suggested in Appendix A.

VII. CONCLUSION

The Council asks that the Proposed Decision be modified for the reasons stated above. Those needed modifications to the Proposed Decision are included in Appendix A (Proposed Modifications to Findings of Fact, Conclusion of Law, and Ordering Paragraph) attached and incorporated by reference hereto.

Dated: April 6, 2023

Respectfully submitted,

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¹⁷ Proposed Decision, at p. 36 (Ordering Paragraph Number 2).

APPENDIX A

THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS FOR THE PROPOSED DECISION ADOPTING ELECTRIC RATE DESIGN PRINCIPLES AND DEMAND FLEXIBILITY DESIGN PRINCIPLES

The California Efficiency + Demand Management Council (the “Council”) proposes the following modifications to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs in the Proposed Decision Adopting Electric Rate Design Principles and Demand Flexibility Design Principles mailed in R.22-07-005 (Demand Flexibility) on March 17, 2023 (Proposed Decision).

Please note the following:

- A page citation to the Proposed Decision is provided in brackets for each Finding of Fact, Conclusion of Law, or Ordering Paragraphs for which a modification is proposed.
- Added language is indicated by **bold type**; removed language is indicated by **bold strike-through**.
- A new or added Finding of Fact, Conclusion of Law, or Ordering Paragraph is labeled as “NEW” in **bold underscored** capital letters.

PROPOSED ORDERING PARAGRAPHS:

1. [35-36] This decision adopts the following Electric Rate Design Principles for the assessment of all electric rates of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company.

- (a) All residential customers (including low-income customers and those who receive a medical baseline or discount) should have access to enough electricity to ensure that their essential needs are met at an affordable cost.
- (b) Rates should be based on marginal cost.
- (c) Rates should be based on cost causation.

- (d) Rates should encourage economically efficient (i) use of energy, (ii) reduction of greenhouse gas emissions, **and** (iii) electrification, **and (iv) conservation of energy.**
- (e) Rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner.
- (f) Rates should encourage customer behaviors that optimize the use of existing grid infrastructure to reduce long-term electric system costs.
- (g) Customers should be able to understand their rates and rate incentives and should have options to manage their bills, **and rates should be designed to be effective for a reasonable duration of time.**
- (h) Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals.
- (i) Rate design should not be technology-specific and should avoid creating unintended cost-shifts.
- (j) Transitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions.

2. [36-37] This decision adopts the following Demand Flexibility Design Principles to guide the development of demand flexibility tariffs, systems, processes, and customer experiences of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company.

- (a) Demand flexibility tariffs should be designed in accordance with all of the Commission's Electric Rate Design Principles.
- (b) Demand flexibility tariffs should provide a dynamic price signal in a standardized format that can be integrated into third-party distributed energy resource and demand management solutions.
- (c) Dynamic prices should, to the extent feasible, accurately incorporate the marginal costs of energy, **avoided emissions**, generation capacity, distribution capacity, and transmission capacity based on grid conditions.

- (d) The systems and processes for calculating dynamic price signals should be able to include bundled and unbundled rate components so that any load serving entity can elect to participate.
- (e) Customers (including low-income customers and those who receive a medical baseline or discount) should have access to tools and mechanisms that enable them to plan and schedule their energy use while managing the monthly variability of their bills.
- (f) Demand flexibility tariffs should provide marginal cost-based compensation for exports to enable economically efficient grid integration of customer-sited electrification technologies and distributed energy resources.