BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates	Rulemaking R.22-07-005

CLIMATE CENTER COMMENTS IN RESPONSE TO ORDER INSTITUTING RULEMAKING TO ADVANCE DEMAND FLEXIBILITY THROUGH ELECTRIC RATES

Lorenzo Kristov, Ph.D.

Consultant to the Climate Center

PO Box 927

Davis, CA 95617-0927

Telephone: (916) 802-7059

Email: LKristov91@gmail.com

Kurt Johnson

The Climate Center

1275 – 4th St. #191

Santa Rosa, CA 95404

Telephone: (970) 729-5051

Email: kurt@theclimatecenter.org

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates	Rulemaking R.22-07-005

CLIMATE CENTER COMMENTS IN RESPONSE TO ORDER INSTITUTING RULEMAKING TO ADVANCE DEMAND FLEXIBILITY THROUGH ELECTRIC RATES

Pursuant to the Administrative Law Judge's Ruling Requesting Comments on the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates, The Climate Center respectfully submits these comments. The Climate Center is a climate and energy policy nonprofit working to rapidly reduce climate pollution at scale, starting in California. We are a think-tank, do-tank working to turn bold ideas into action for an equitable, climate-safe future. The Climate Center thanks the Commission for opening this timely and important rulemaking and for the opportunity to comment.

Introduction

The Climate Center wholeheartedly supports the Commission's goal for this rulemaking: "… to enable widespread demand flexibility through electric rates." Demand-side flexibility has been a sleeping giant, waiting to be awakened by deep empowerment through a combination of effective rate designs and technology solutions that simplify it for customers while making it more dependable for system operators. The OIR correctly recognizes that now is the time to awaken the giant and make demand-side flexibility a fully contributing adult in the family of resources that comprise California's electricity system.

Demand-side flexibility through rates, combined with widespread energy efficiency upgrades to buildings and a grid services framework that fully compensates all types of distributed energy resources (DER) for the value they provide, can dramatically improve overall system reliability and efficiency by mitigating most operational problems close to the source. Demand flexibility and other DER can mitigate supply and load volatility, flatten net load profiles, increase hosting capacity and shore up supply adequacy by helping to serve new electrification demand. With the technology solutions available today the crucial gap has been the lack of effective rate designs that align customer operating behavior with grid operating needs while still serving customers' energy needs at affordable costs. The new rulemaking arrives at the right moment to address this gap.

Although the rulemaking is not explicitly about DER, it is clear from customer adoption trends that many customers who would participate in new demand-side flexibility rates will have on-site DER and will use them in providing flexibility services to the grid. This rulemaking thus contributes to a broader over-arching goal the Commission has articulated in other proceedings, namely, to maximize the benefits DER can provide to the system and to society at large.[1]

The Climate Center wishes to highlight a central principle at play here: To maximize DER benefits to the system, DER must have well-defined opportunities and incentives to provide those benefits. Demand flexibility through electric rates will make a major contribution in this regard, and as such it will be a key element of the more participatory high-DER distribution network toward which the electricity industry is evolving.

[1] For example, the Commission's High-DER Future OIR states (R.21-06-017 OIR, p 10): "This OIR focuses on preparing the grid to accommodate what is expected to be a high DER future and capture as much value as possible from DERs as well as mitigate any unintended negative impacts."

The Climate Center strongly supports developing an open, participatory distribution network because we are convinced that California's major goals for decarbonization, resilience and energy justice require it. These goals all have local aspects and local possibilities, such as municipal electrification projects and local resilience measures for which DER solutions will be the preferred solutions. An open participatory distribution network that fully compensates customers and DER for the value they provide can be the vehicle to realize the most cost-effective and just pathway to achieve California's goals because it builds on and leverages the needs and preferences customers are already expressing through their energy choices. But if DER are adopted only to meet individual customers' needs, their value to the grid will be left on the table unless there is a regulatory framework creating participation opportunities and compensation mechanisms that enable DER value to be fully realized. Demand flexibility through electric rates will be an essential component of the needed framework.

The Energy Division's CalFUSE Proposal

The Climate Center sees valuable potential benefits in the Energy Division's CalFUSE tariff proposal and supports its detailed development within this rulemaking. This tariff design would enable an end-use customer (with or without on-site DER) to receive an 8760-hour energy consumption profile at a pre-determined price, essentially a hedge against price volatility. In addition the customer would be informed of dynamic prices at which they can buy additional kWh by consuming more than their hourly hedge amount, or sell back a portion by consuming less. This ensures that participating customers would be hedged for their "normal" hourly consumption profile while also facing dynamic price incentives that apply to deviations from the hedged quantity.

We note that the extremely high ERCOT spot prices during the Texas freeze and blackout of February 2021 caused many customers to run up massive energy bids under retail tariffs that exposed them to dynamic wholesale prices for their entire consumption. As a result, this event raised serious concerns and triggered some political backlash against exposing retail customers to dynamic prices. The CalFUSE proposal would seem to mitigate the Texas concern by limiting a customer's price exposure to their kWh deviation from their hedge profile.

Relationship to NEM 3.0 Proceeding

TCC urges the Commission to explain how the new rulemaking is related to the ongoing NEM 3.0 proceeding. Our concerns about potential conflict or confusion relate to both substantive content and procedural timeline. Questions we would like the Commission to address include:

- To what extent could CalFUSE or a similar demand flexibility tariff resolve the same issues NEM 3.0 is trying to resolve, such as full recovery of the distribution utility's fixed costs and non-bypassable charges without a problematic cost shift?
- When does the Commission estimate that new tariffs adopted under NEM 3.0 and ones adopted under the new rulemaking might take effect?
- If the NEM 3.0 proceeding adopts a new NEM or Net Billing tariff to take effect while the new rulemaking is still in progress, could it dampen customer adoption of on-site solar and storage resources while customers and DER providers wait to see if a new demand flexibility tariff is more advantageous?

The Climate Center is concerned that having two concurrent rate-design proceedings in two separate siloes that address closely related and overlapping issues could create confusion for customers and other stakeholders and be burdensome or at best inefficient. We therefore urge the Commission to clarify at the pre-hearing conference and in its scoping memo how these two proceedings relate to each other, including the questions we raise above, and offer specific coordination approaches that reduce the participation burden on stakeholders who have resource challenges. This concern ties directly to the Commission's stated intention to advance its ESJ action plan through the new rulemaking.

Relationship to the Commission's ESJ Action Plan

The OIR states that this proceeding will consider "(iv) advancing the Commission's ESJ Action Plan through demand flexibility policies and programs" [OIR, p 7]. The Climate Center requests the Commission to be more specific about which specific elements of the ESJ Action Plan this proceeding will advance and how it will do so. What are some specific linkages between this rulemaking's scope of possible decisions and the Commission's ESJ goals? How will the Commission enable resource-challenged stakeholders to fully participate and have their voices heard?

The OIR indicates that working groups could be formed to develop proposals for this rulemaking [OIR, p 7]. The Climate Center recommends that the Commission create a working group to identify specific ways the process and the outcomes of this rulemaking can and should advance specific ESJ Action Plan elements and to help formulate specific ESJ-enhancing provisions to incorporate into demand-flexibility rates and tariffs for Commission adoption.

The OIR's Preliminary Scope Issues

Among the list of preliminary issues [OIR, pp 8-9], The Climate Center views items a and b as essential foundational elements for the entire rulemaking. These items address, respectively, updating of rate design principles and guidance principles for rate design and evaluation. In addition, items g, k and l all involve considerations that should be reflected in the foundational rate design and guidance principles. These items address, respectively, universal access, meeting ESJ Action Plan goals, and enabling full participation by bundled and unbundled customers.

Because of the foundational importance of these elements The Climate Center urges the Commission to convene stakeholder activities as early as possible in the proceeding to develop proposals on items a and b, taking into consideration items g, k and l.

Regarding items i (utility revenue adequacy) and l (equitable access by bundled and unbundled customers), it will be important for the Commission and the working groups to clearly and accurately separate utility costs associated with providing distribution service from their costs associated with providing retail energy (the load-serving entity or LSE function). All customers will pay the distribution service costs, but each customer's energy costs will depend on their

LSE. The accuracy with which these costs are unbundled will make a significant difference to the equitable access to the new demand flexibility rates by all customers.

Near Term Implementations

Now that there are already two pilots using the CalFUSE rate design, The Climate Center suggests that the Commission direct the Energy Division in collaboration with the utilities and non-utility LSEs to plan to have several more up and running by end of 2023, in particular ones involving customers of community choice aggregators (CCAs) and retail Electric Service Providers (ESPs). The Commission stated a goal to ensure unbundled customers have equal access to the new rates, which will require coordination between the non-utility LSE and the relevant distribution utility. This proceeding can build on the current SCE and PG&E-Valley Clean Energy (VCE) pilots, and work with interested CCAs or ESPs to implement several more. Moving more quickly to implement several more pilots, rather than waiting until the rulemaking is concluded, is appropriate given the urgent need for demand flexibility to meet the challenges facing California's electricity system today and the fact that so much of the groundwork has been laid for the new existing pilots.

Conclusion

Thank you for opening this very important rulemaking and for the opportunity to comment.

/s/ Kurt Johnson
Kurt Johnson
The Climate Center
1275 – 4th St. #191
Santa Rosa, CA 95404
Telephone: (970) 729-5051
Email: kurt@theclimatecenter.org

/s/ Lorenzo Kristov, Ph.D.
Lorenzo Kristov, Ph.D.
Consultant to The Climate Center
PO Box 927
Davis, CA 95617-0927
Telephone: (916) 802-7059
Email: LKristov91@gmail.com