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SDGE SoCalGas Letter-CEC IEPR-Energy Demand Forecast and Doubling EE

Additional submitted attachment is included below.



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California Energy Commission
Docket Office
1516 Ninth Street
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Subject: 2016 Joint Agency IEPR Workshop on Energy Demand Forecast and Doubling of Energy Efficiency- Data and Analytical Needs, Docket No.16-IEPR-05

Dear Commissioners:

The Southern California Gas Company (SoCalGas) and San Diego Gas and Electric (SDG&E), (also referred to as the Joint Utilities), appreciate the California Energy Commission (CEC) hosting the California Public Utilities Commission (CPUC), California Independent System Operator (CAISO) and the California Air Resources Board (CARB) in a Joint Agency Workshop, as part of the *2016 Integrated Energy Policy Report (IEPR) Update* proceeding, on July 11, 2016.

SDG&E and SoCalGas support the state's efforts to reduce greenhouse gas (GHG) emissions and are actively participating in the numerous proceedings across the state agencies that are working on developing the policy direction and implementation of Executive Order B-30-15 and Senate Bill (SB) 350. However, in order for this policy direction to be implemented in the most organized and cost effective manner it is imperative that the state agencies work together to provide an integrated and cohesive plan. The Joint Utilities believe clarity is sorely needed so that stakeholders can understand how each proceeding at each agency, from the CAISO, CARB, CEC and CPUC, are going to work together in order to specifically achieve the state's goals. Currently, there is no clear, overarching understanding of how the deliverables from each agency are specifically designed to achieve the state's goals. The Joint Utilities do not believe that simply continuing down the historical path will result in the needed GHG reductions at the lowest cost while maintaining reliability and providing the service that our customers expect at a reasonable cost. As an example, SB 350 requires all the electric load serving entities (LSE) to implement integrated resource plans (IRPs). This requirement, by its very definition, will require that the entire current process for determining what is cost effective be reassessed.

Similarly, the IEPR proceeding, which has opened up a dialogue about how California can achieve its goal of doubling energy efficiency (EE) by 2030, cannot do so in a vacuum. Nor can it solely define what will be cost effective. The CEC, and stakeholders participating in the

comment process, should take into consideration the new IRP requirement, and how the deliverables from these IEPR proceedings should be changed to provide useful data so the lowest cost GHG reductions can be achieved. In summary, the CPUC and the CEC need to reassess and provide guidance on how each of these proceedings is operating in concert in order to achieve the state's GHG goals.

With that said, the Joint Utilities offer the following broad suggestions for the CEC to take into consideration when devising its development of the goals to meet the SB 350 EE requirement in response to Dr. Michael Jaske's presentation, *SB 350 EE Targets: Design Issues*.

1. Cost-effectiveness –

The Joint Utilities support a process where GHG reductions are driven by carrying out the most cost-effective activities first. According to the Public Utilities Code (PU Code), there are a number of places where the terms cost-effectiveness and feasibility come into play, including: creating the 10 year IEPR forecast, the methodology by which the CEC will establish annual targets for statewide EE savings and demand reduction that will achieve a cumulative doubling of statewide EE savings in electricity and natural gas final end uses of retail customers by January 1, 2030.

However, the Joint Utilities do not believe the CEC, acting alone, can determine what EE will be cost effective for each and every LSE or natural gas utility in the state. The State may be better served by the CEC concentrating its efforts to determine the feasibility, estimated impacts and costs of various EE options. What is cost effective may be best determined in subsequent actions by each LSE or natural gas utility in the state as they address the specifics within their respective IRPs.

The Joint Utilities have a history of aggressively pursuing EE and understand the important role EE will play in reducing electricity and natural gas demand, in achieving the state's climate change goals, and in saving our customers money. However, the Joint Utilities do not believe that externalities, such as a societal cost, should be taken into consideration when determining the cost-effectiveness of EE. Utility ratepayers should only be asked to pay utility costs. Susan F. Tierney, Ph.D., with the Analysis Group, Inc., argued this point in her March 30, 2016 white paper entitled *The Value of 'Der' to 'D': The Role of Distributed Energy resources in Supporting Local Electric Distribution System Reliability*. Dr. Tierney asserts

“[i]n the day-to-day provision of electric service, these avoided societal costs are literally not part of the utility's avoided cost. Were the utility to compensate a DER supplier at this type of estimated full avoided cost (rather than its own avoided cost), then “missing money” problems could arise, which should be addressed through a fair and transparent ratemaking technique.”

Different cost/benefit methodologies are being considered in various regulatory jurisdictions to determine whether a utility's investment in distributed energy resources (DER) is cost-beneficial relative to a more traditional investment (e.g., incremental distribution or transmission infrastructure), including the Utility Cost Test, the Total Resource Cost Test, the Participating Customer Test, the Non-Participants' Cost Test (also sometimes known as the Ratepayer Impact Measure Test). Whatever method the CEC ultimately employs should only take into consideration those costs that factor into the "day-to-day provision of electric service" so that IOU ratepayers are not paying for costs that the IOU itself is not incurring.

2. Feasibility

As with cost-effectiveness, the term "feasible" is used in multiple places in the PU Code, so there needs to be clarity about how the term is used. Unlike "cost-effectiveness," which can be assessed by comparing to other options, "feasibility" is a more nebulous term that may warrant a specific definition. The dictionary definition is "possible to do" or "capable of being carried out." If we look at EE through that simple lens, then the CEC should more carefully scrutinize the inclusion of emerging technologies, so that only those technologies that currently exist in the marketplace or are realistically expected to infiltrate the marketplace are taken into consideration. If the forecast embeds technologies which will be unavailable, then the resulting targets will be inherently infeasible. Since the forecast is updated regularly, real and identified emerging technologies can always be added to feasible EE measures over time.

3. Fuel Substitution/Switching

Dr. Jaske teed up the issue of accounting for fuel substitution/switching in the IEPR. The CPUC has established rules, referred to as the three-pronged test, to determine if fuel substitution measures are eligible for ratepayer-funded energy efficiency. These rules are intended to ensure that eligible fuel substitution projects are cost-effective, more efficient, and do not adversely affect the environment. In most cases, projects do not pass the three-pronged test, and are therefore not eligible for ratepayer-funded EE rules. The IEPR should align with the CPUC's rules in this regard.

4. Statewide vs. IOU-Specific Goals

The target of doubling EE should be a statewide target, as the language of SB 350 makes clear. The Joint Utilities support implementing EE in a cost effective manner. If, as stated above, the cost effectiveness methodology only takes into consideration those costs that factor into the "day-to-day provision of electric service," so that IOU ratepayers are not paying for costs that the IOU itself is not incurring, then the cost effectiveness of EE will not be the same in the service areas of all LSEs. Each will find some level of EE cost effective as compared to other options that are available to reduce GHG. Thus, an assumption that a statewide doubling will be accomplished simply by having each and every LSE double EE efforts ignores the reality that service areas and customer mixes vary. The CEC needs to assess its processes to determine

how to provide the needed information so that the cost effective determination that will likely be made outside a CEC proceeding can advance the state's goals.

We appreciate the opportunity to provide comments on the Joint Agency Workshop.

Please do not hesitate to reach out for more information.

Sincerely,

/s/ Tim Carmichael

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