BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning, and Evaluation of Integrated Distributed Energy Resources.	Rulemaking 14-10-003 (Filed October 2, 2014)

REPLY COMMENTS OF CLEAN COALITION ON ASSIGNED COMMISSIONER'S RULING INTRODUCING A DRAFT REGULATORY INCENTIVES PROPOSAL

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I. INTRODUCTION

The Clean Coalition submits the following reply comments in response to the Assigned Commissioner's Ruling Introducing a Draft Regulatory Incentives Proposal for Discussion and Comment ("Proposal") and to the specific questions contained therein, in accordance with Rules of Practice and Procedure of the California Public Utilities Commission ("Commission").

The Clean Coalition is a nonprofit organization whose mission is to accelerate the transition to renewable energy and a modern grid through technical, policy, and project development expertise. The Clean Coalition drives policy innovation to remove barriers to procurement and interconnection of distributed energy resources ("DER")—such as local renewables, advanced inverters, demand response, and energy storage—and we establish market mechanisms that realize the full potential of integrating these solutions. The Clean Coalition also collaborates with utilities and municipalities to create near-term deployment opportunities that prove the technical and financial viability of local renewables and other DER.

SUMMARY:

- The Clean Coalition strongly supports the Commission in seeking to align the pathways for investor-owned utilities to meet shareholder interests with California policy goals and ratepayer interests.

- We note that parties broadly agree with the intent of the Proposal and the value of addressing misalignment between these public interests and the financial incentives realized by businesses operating under existing regulatory policy.

- Parties also broadly support consideration of a wider or more fundamental scope of changes than encompassed in the Proposal, while recognizing that the Proposal itself is intended only as a first step.

- The Clean Coalition takes this opportunity to recognize that, subsequent to the party responses of May 9th, 2016, the New York Public Service Commission ("PSC") issued a highly relevant "Order Adopting a Ratemaking and Utility Revenue Model Policy Framework." We attach this order for the benefit of the Commission and introduce the conclusions in reply.

II. COMMENTS

The Clean Coalition strongly supports the Commission in seeking to align the pathways for investor-owned utilities to meet shareholder interests with California policy goals and ratepayer interests, and the Clean Coalition supports the Proposal as a valid and appropriate step.

In opening comments the Clean Coalition referenced recent research on this topic, including the Lawrence Berkeley National Laboratory publication series on future electric utility regulation,[1] and the New York PSC Staff Proposal on Utility Engagement in DER. Subsequent to our filing, the PSC issued an order[2] on May 19th addressing these same topics, drawing from an exhaustive analysis of trends in technology, markets, and environmental policy, and concluding that its core statutory duties can no longer be met with the utility regulatory model of the previous century. This work follows the PSC's February 2015 order[3] adopting a regulatory policy framework for Reforming the Energy Vision (the "Framework Order") which described the need to reform the utility business model and to align ratemaking practices with an evolving set of regulatory and policy objectives. We anticipate that the Commission is closely following these developments in New York and attach this ruling here for the record of this proceeding.

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[1] Elecriticy Markets and Policy Group, *Future Electric Utility Regulation Series*, available at lbl.gov/future-electric-utility-regulation-series.

[2] Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Adopting A Ratemaking And Utility Revenue Model Policy Framework (issued May 19, 2016).

[3] Case 14-M-0101, *supra*, Order Adopting Regulatory Policy Framework and Implementation Plan (issued February 26, 2015) (Framework Order).

The ratemaking changes adopted in this new order add to other actions taken by the PSC to enable the growth of a retail market and a modernized power system that is increasingly clean, efficient, transactive, and adaptable to integrating and optimizing resources in front of and behind the meter. The focus of the New York decision is to create a modern regulatory model that challenges utilities to take actions to achieve these objectives by better aligning utility shareholder financial interest with consumer interest.

The New York order concludes that cost-of-service ratemaking, while remaining applicable to conventional utility investments for the near future, generally inhibits innovation and discourages numerous activities that utilities must undertake to implement Commission goals. Ratepayers benefit when utilities aggressively pursue economic alternatives to traditional rate-based capital investment. Ratepayers also benefit when cost-effective energy efficiency and distributed energy resources are integrated into the basic business operations of utilities. The Locational Net Benefits Assessments being performed under the Distribution Resource Plans will be a key element of this, and evolution of the utility financial incentives through this proceeding will be the other.

Utility revenue opportunities must be expanded to more closely align utilities' financial interests with the ratepayer benefits from these elements of a modernized electric system. As utilities develop capabilities to implement platform functions and markets develop around these functions, utilities must have the opportunity to earn platform revenues that offset the need for traditional revenue requirements and support innovation throughout the energy value chain to produce the most economically efficient mix of resources on the system.

Efficient markets will require more precise value signals and access to system and customer data. In the interim and while the market is developing, outcome-based incentives are required to encourage growth of markets, to ensure the efficient use of capital toward lower total system costs, and to achieve of State policy goals.

The New York PSC builds from the conventional cost-of-service ratemaking approach to add a combination of market-based platform earnings and outcome-based earning opportunities. Utilities will have four ways of achieving earnings: traditional cost-of-service earnings; earnings tied to achievement of alternatives that reduce utility capital spending and provide definitive consumer benefit; earnings from market-facing platform activities; and transitional outcome-based performance measures. These additional measures are collectively intended to create a regulatory environment where utilities can create shareholder value comparable to or superior to conventional investments. This will occur by integrating third-party solutions and capital that improve the efficiency, resiliency, and flexibility of the physical networks, as well as reduce consumer total costs and achieve the State's policy objectives. The Clean Coalition believes that it is appropriate for the Commission to consider pilot implementation of similar approaches, in conjunction with Commissioner Florio's Proposal, to prepare California to widely adopt such measures in a timely manner. Consideration and implementation of such pilots will allow the Commission to evaluate their specific application to California while comparing to, and learning from, the PSC's leading experience in New York.

The previously referenced PSC Staff White Paper[4] discussed an extensive set of issues related to ratemaking in the context of REV, and included 20 recommendations ranging from incremental near-term measures to far-reaching changes in regulatory direction. The White Paper began by articulating a set of foundational principles to guide the development of a new ratemaking model:

- Align earning opportunities with customer value
- Maintain flexibility
- Provide accurate and appropriate value signals
- Maintain a sound electric industry
- Shift balance of regulatory incentives to market incentives
- Achieve public policy objectives

The White Paper described at length the inadequacies of traditional ratemaking methods in the context of a decentralized, market-oriented utility system, concluding that, "[a] new ratemaking approach must support the emergence of the modern utility whose economic interests and financial growth are distinctly and firmly aligned with its customers' interests in total bill management and the encouragement of DER provider investments and operations that help provide these benefits." (at 27). The White Paper identifies three categories of reform:

- Market-oriented utility business models
- Incremental reforms to traditional utility revenue models
- Rate design changes to provide accurate value signals while meeting public policy objectives

[4] Case 14-M-0101, *supra*, Staff White Paper on Ratemaking and Utility Business Models (White Paper), filed July 28, 2015.

The Clean Coalition believes these conclusions are also reflected in comments on the present Proposal, and encourages the Commission to similarly adopt clear principles to guide the development of this or other proposals and pilots in this proceeding, particularly with regard to revising utility revenue models.

The Clean Coalition suggests that the Commission incorporate the following factors in conjunction with our recommendation for an IDER Roadmap as part of transition strategies in this or related proceedings:

- Utility roles in providing value-added services
- Market structure and asset ownership
- Planning and operational responsibilities
- Incremental changes to Cost of Service regulation
- Openness of utility networks
- Regulatory processes
- Assessing and ensuring ratepayer benefits

III. CONCLUSION

The Clean Coalition appreciates the opportunity to submit this reply to reponses on the Proposal and looks forward to working with the Commission, the investor-owned utilities, and other parties in this proceeding to advance development and implementation of new regulatory incentives and frameworks that encourage the deployment and full utilization of DERs.

Respectfully submitted,
-/s/-

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Attachment: PSC ORDER ADOPTING A RATEMAKING AND UTILITY REVENUE MODEL POLICY FRAMEWORK 6.19.2016