

**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 September 27, 2022)

**CLEAN COALITION COMMENTS ON PROPOSED DECISION ADOPTING  
ELECTRIC RATE DESIGN PRINCIPLES AND DEMAND FLEXIBILITY DESIGN  
PRINCIPLES**

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**I. INTRODUCTION**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (“the Commission”) the Clean Coalition respectfully submits these reply comments in response to the *Proposed Decision* (“PD”) *Adoption Electric Rate Design Principles and Demand Flexibility Design Principles*, issued at the Commission on March 17, 2023.

The Clean Coalition appreciates the changes that the Commission included in the PD and the rationale for updating the Rate Design and Demand Flexibility Design Principles based on the Staff Proposal and party comments. Overall, the principles represent a step forward in creating a concrete framework that will guide the efforts in this proceeding over the next few years. There are two small changes that will better align these principles with the Commission’s goals in the DER Action Plan 2.0 and the ESJ Action Plan.

- Rate Design Principle V: Add the phrase “resilience” in addition to “electric system reliability”.
- Demand Flexibility Design Principle III: Add the phrase “necessary to deliver energy to the end-user”.

**II. DESCRIPTION OF PARTY**

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, demand response, and energy storage — and we establish market mechanisms that realize the full potential of integrating these solutions for optimized economic, environmental, and resilience benefits. The Clean Coalition also collaborates with utilities, municipalities, property owners, and other stakeholders to create near-term deployment opportunities that prove the unparalleled benefits of local renewables and other DER.

### III. COMMENTS

- A. Rate Design Principle V: Add the phrase “resilience” in addition to “electric system reliability”.

The Clean Coalition appreciates that the Commission was flexible and willing to add the phrase “electric system reliability” to Rate Design Principle V, which adds a focus on local grid conditions in addition to highlighting the need for reliability across the broader grid. However, given the last five years of wildfires, Public Safety Power Shutoffs (“PSPS”) and the COVID-19 pandemic—during which the state economy ground to a halt and life was conducted almost entirely from the home—resilience can (and will) save lives. For regions that experience frequent outages due to utility strategies to mitigate ignitions that could potentially be caused by utility-infrastructure, resilience is imperative, particularly with strategies like PG&E’s Fast Trip Outages which result in entire feeders being shut down to err on the side of caution. Without delving deeper into those wildfire mitigation strategies or attempting to analyze the effectiveness/real world impacts of these tactics on ratepayers, the Clean Coalition strongly believes that resilience should be at the very least, a consideration, when it comes to rate design. Moreover, we believe that a reference to resilience is necessary in order for the Commission to truly abide by the Action Plans that are intended to guide its work/decisions moving forward.

For example, the Commission describes the DER Action Plan 2.0 as different from the first iteration because it includes a greater focus on issues including, “accelerated transportation and building electrification, **microgrids and resiliency**, flexible loads and dynamic rates, and equity and affordability.”<sup>1</sup> Therefore, the inclusion of “electric system reliability” to address

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<sup>1</sup> DER Action Plan 2.0 at p. 4. In addition, vision element 3b, action element 2 states that, “By 2024, the CPUC and CAISO should identify key DER services and prioritization for those services based on reliability and resiliency implications. The CPUC should identify any modifications or amendments needed to enable DER value stacking.” (at p. 17)

local reliability concerns is a welcome addition to the Rate Design Principle, albeit it is different from explicitly mentioning resilience. The glossary for the DER Action Plan 2.0 defines Reliability as, “The ability to maintain power delivery in the face of routine uncertainty during normal operating conditions,” whereas Resilience is defined as, “The ability to prepare for, absorb, adapt to, and recover from low probability, high consequence disruptive events that could lead to long duration outages.”<sup>2</sup> Rates design should acknowledge the need to promote **both** resilience and reliability. Furthermore, in the ESJ Action Plan, the Commission dedicated an entire section to, “Increase[d] climate resiliency in ESJ communities.”<sup>3</sup> The Commission is right to prioritize reliability given the recent close calls in 2020 and 2022, but the increased focus on system reliability should not necessitate an issue as important as resilience falling to the wayside.

B. Demand Flexibility Design Principle III: Add the phrase “necessary to deliver energy to the end-user”.

Demand Flexibility Design Principle III explains what components should be included in Dynamic Pricing, specifically mentioning generation and delivery-related marginal costs. However, the fact remains that energy generated at different points on the grid can have different marginal costs, especially when taking into account the fact that the cost of generating energy is now lower than the cost to deliver that energy to the end user. If dynamic prices are to result in more affordable rates, that distinction needs to be actively considered in pricing schemes. One aspect of this difference in cost is the cost of generating energy—utility-scale is more cost-effective than distributed energy due to economies of scale—while the other main difference is the cost of delivering the energy. Distributed generation that is used on-site or on the local feeder is much more efficient and does not require transmission infrastructure.

For example, in the Avoided Cost Calculator, the Commission makes the distinction that distributed generation has an avoided transmission value because it is generated locally, whereas utility-scale resources do not have an avoided transmission value because transmission infrastructure is required to deliver energy to the end user. Therefore, marginal energy originating on the distribution grid has a different cost than energy generated on the transmission

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<sup>2</sup> Ibid at p. 26

<sup>3</sup> Ibid at p. 5 and ESJ Action Plan at p. 42 (Goal 4)

grid. By adding the phrase “necessary to deliver energy to the end-user,” the Commission makes the distinction that pricing that considers the cost of delivering energy in addition to generating energy will result in the most optimal market outcomes. Adding this statement will not abdicate ratepayers from their role in covering their cost-of-service, but it will create a mandate that the **total cost** of energy is part of the equation when considering new incremental capacity.

#### **IV. CONCLUSION**

The Clean Coalition respectfully submits these comments on the PD and we request that the Commission incorporate these changes to the rate design and demand flexibility design principles before adopting a final decision. While the changes will not change the meaning of the principles themselves, they will add value that more accurately reflects the Commission’s publicly-stated guidelines.

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Summary of recommendations (changes are bold and underlined)

Ordering Paragraph 1(e)

“Rates should encourage customer behaviors that improve electric system reliability **and local resilience** in an economically efficient manner.”

Ordering Paragraph 2(c)

“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 **and as required to deliver energy to the end user.**”