

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Modernize the
Electric Grid for a High Distributed Energy
Resources Future.

Rulemaking 21-06-017
Filed June 24, 2021

**CLEAN COALITION REPLY COMMENTS ON ADMINISTRATIVE LAW JUDGE'S
RULING SEEKING COMMENTS REGARDING FUTURE GRID STUDY REPORT**

/s/ BEN SCHWARTZ
Ben Schwartz
Policy Manager
Clean Coalition
1800 Garden Street
Santa Barbara, CA 93101
Phone: 626-232-7573
ben@clean-coalition.org

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I. INTRODUCTION

Pursuant to Rule 6.2 of the Rules of Practice and procedure of the California Public Utilities Commission (“the Commission”), the Clean Coalition respectfully submits these reply comments on the *Administrative Law Judge’s* (“ALJ”) *Ruling*, issued on October 17, 2024. Clean Coalition supports many of the steps proposed in the Future Grid Study report and parties in opening comment, especially related to increasing local resilience via the deployment of front-of-meter resources and Community Microgrids. While the goal of the report is to propose tangible steps that can be taken in the short, medium, and long term, Clean Coalition is concerned that a more overarching change is needed to align the interests of the ratepayers with the utilities as the transition is made to distribution system operators (“DSO”). As Green Power Institute (“GPI”) notes, “it [the report] requires significant enhancement to address the broader economic, community, and environmental considerations that will determine whether California's clean energy transition delivers local energy, equitable benefits, ratepayer savings, and supports integrated distribution planning (e.g. wildfire and PSPS mitigation), while also protecting natural resources and our atmosphere.”¹ **Clean Coalition proposes that the Commission must consider utility divestment of transmission assets as a way to optimize the distribution grid and create the circumstances for a bottom-up DSO to flourish, which will save the ratepayers tens of billions of dollars in the coming decades.**

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

¹ GPI Opening Comments on Future Grid Study Report, at p. 8.

interconnection of 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

Any comprehensive discussion on the steps needed to enable a grid of the future operated by a DSO must include consideration of the financial motives and roadblocks that exist under the status quo that are inhibiting the transition to a more distributed future. Systematic issues, namely the existing investor-owned utility profit motive, are preventing a smooth transition. The IOUs receive a rate of return for all infrastructure investments, around 8% for distribution investments and a more lucrative 9%-11% for transmission investments. With profit derived from infrastructure investments, the answer as problems arise is usually to build more infrastructure, rather than procuring other non-wires alternatives. Abraham Maslow describes this problem succinctly, stating, “I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.” Despite relatively flat load growth over the last decade, infrastructure investments—particularly in transmission—have massively increased. As load growth occurs due to electrification, the status quo risks overinvestment in transmission at the expense of the ratepayers, who will foot the bill for the entire 40–50-year lifespan of the transmission assets. Receiving a guaranteed rate of return for infrastructure investments has led to a system where the interests of the ratepayers—e.g., service at just and reasonable rates—are not necessarily aligned with the utility’s interest in increased profit. Vote Solar “cautions decision-makers that relying too heavily on utility-scale resources and the attendant expensive new transmission necessary to reliably deliver clean capacity to customers will prove too costly and may undermine the high-DER future needed to meet emission reduction targets.”²

A perfect example is the skyrocketing investment in transmission assets, which provide the highest guaranteed rate of return. Since 2008, the IOU’s base transmission revenue requirement has increased from \$4.6 billion to \$21 billion, and the \$/kWh cost of transmission

² Vote Solar comments on Future Grid Study, at p. 2

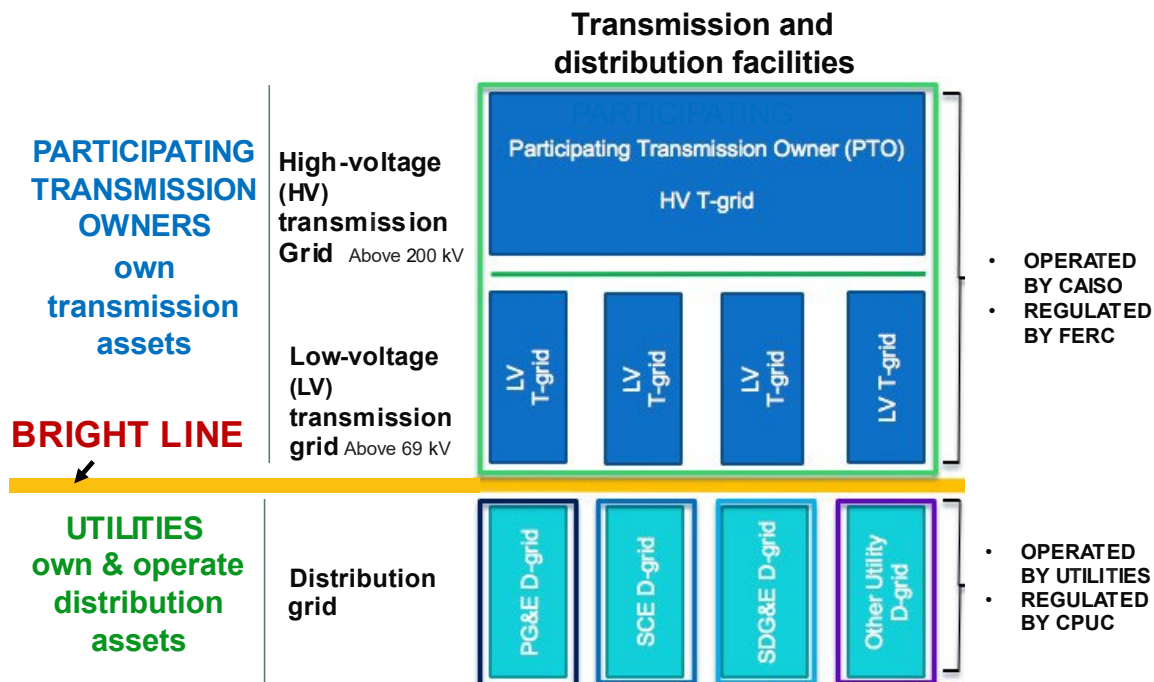
access charges (“TAC”) have more than tripled over the last 11 years. In 2020 and 2021, 60% of IOU investments in transmission were self-approved, with no determination by the Commission that the investments were in the best interest of the ratepayers.³ As investments in transmission have risen so to have total rates, exacerbating the energy affordability crisis. Over the last decade, PG&E’s rates have risen by 127%, SCE’s by 91%, and SDG&E’s by 72%, far outpacing the increase of the Consumer Price Index, which has only increased by 28%. The additional profit from investing in transmission assets has led to a system where the IOUs have a financial incentive to invest in transmission rather than investing in the distribution grid or procuring a DER solution. At least part of the lack of development toward distribution-level markets,⁴ grid services, procurement, and flexible connection agreements addressed in the Future Grid Study report and in opening comments by parties can be attributed to the emphasis on bulk grid solutions that is driven by the higher profit margin associated with transmission investments. Critically, the Commission must give thought to the fact an effective grid of the future should align the interests of the ratepayers and the utility, wherever possible.

In comparison to the status quo and reliance on transmission solutions, a DSO would be a neutral arbiter, creating an open and accessible market to foster the competitive development of DER by coordinating distributed generation coming into the grid. DER benefit the entire distribution grid, allowing for greater capacity through a combination of energy storage, demand response, and energy efficiency measures. In a DSO-driven market, any facility can both a consumer and a producer, giving ratepayers better choices and services.

Therefore, the Clean Coalition advocates for the consideration of transmission divestment as a long-term solution to optimize a distributed grid and lead to ratepayer savings in the context of discussing a DSO. To properly enable a DSO-driven future, a bright line should be created by requiring the utilities to divest from ownership of all transmission assets. See the diagram below, for a visual on how the grid would be owned and operated under a transmission divestment situation. Transmission divestment would make each IOU a DSO, allowed to own and operate the distribution grid, but unable to own any transmission assets.

³ <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/en-banc/rates-en-bancwhite-paper20.pdf>

⁴ Future Grid Study, at p. 53.



The evolved utilities would focus on upgrading and maintaining the distribution grid, provisioning distribution-level resilience, operating distribution markets, and participating in CAISO markets to procure or export necessary energy. Utility resources that are currently split between the transmission and the distribution grid would be dedicated to the distribution grid, enabling more effective management of the transition to a fully electrified grid from a bottom-up perspective. As OhmConnect explains in comments, “the Commission must create an environment that is supportive of high DER adoption by creating value for ratepayers, DER owners, and utility shareholders. Ratepayers should benefit from the services provided by DERs, DER owners should be compensated for the services they provide, and IOUs should be able to capitalize on investment/procurement of DERs and the software/infrastructure necessary to provide a distributed system platform.”⁵ Doing so requires a mechanism such as transmission divestment to focus on the distribution grid and additional performance based metrics to enable a DSO to make a reasonable profit.

This alignment of financial incentives has been addressed in other instances in the energy industry. For example, energy efficiency programs have been amended many times to find an effective way to enable the utility administrators to receive some sort of incentive (or at least end

⁵ OhmConnect Opening Comments on Future Grid Study, at p. 3-4.

up neutral).⁶ Effective policymaking, including the development of new markets requires compensation mechanisms to properly incentivize change over the status quo. While the utilities already carry out a number of functions as distribution operators that a DSO would be responsible for, removing the inherent conflict of interest that exists due to the higher rate of return from investing in transmission infrastructure is critical to enabling a smooth transition.

IV. CONCLUSION

The Clean Coalition appreciates the opportunity to submit these reply comments. We urge the Commission to actively consider transmission divestment as one solution to make a DSO-led future possible.

/s/ BEN SCHWARTZ

Ben Schwartz
Policy Manager
Clean Coalition
1800 Garden Street
Santa Barbara, CA 93101
Phone: 626-232-7573
ben@clean-coalition.org

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⁶ <https://energycentral.com/news/california-puc-issues-decision-continuing-efficiency-savings-involving-energy-efficiency>